

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2016-1 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that (i) interest on the Issue 2016-1A Bonds will be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Issue 2016-1B Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"). In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2016-1 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2016-1 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds

\$24,060,000 Issue 2016-1A (AMT)

\$100,940,000 Issue 2016-1B (Non-AMT)[†]

Dated: Date of Delivery

Due: As shown on inside front cover

The Issue 2016-1A Bonds (the "Issue 2016-1A Bonds") and the Issue 2016-1B Bonds (the "Issue 2016-1B Bonds" and, together with the Issue 2016-1A Bonds, the "Issue 2016-1 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix G "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on January 1, 2017, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about May 18, 2016.

RBC CAPITAL MARKETS

CITIGROUP

FTN FINANCIAL CAPITAL MARKETS

J.J.B. HILLIARD, W.L. LYONS, LLC

RAYMOND JAMES

J.P. MORGAN

WELLS FARGO SECURITIES

April 13, 2016

[†]Interest on the Issue 2016-1B Bonds is not included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$24,060,000 Issue 2016-1A (AMT)

\$24,060,000 Term Bonds			
<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
January 1, 2047 (PAC)	\$24,060,000	3.500%	880461HR2

\$100,940,000 Issue 2016-1B (Non-AMT)[†]

\$52,710,000 Serial Bonds						
<u>Year</u>	<u>Principal Amount Due January 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>	<u>Principal Amount Due July 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
2017	\$680,000	0.625%	880461HS0	\$1,540,000	0.750%	880461HT8
2018	1,550,000	0.850	880461HU5	1,560,000	0.900	880461HV3
2019	1,570,000	1.000	880461HW1	1,580,000	1.100	880461HX9
2020	1,595,000	1.200	880461HY7	1,605,000	1.300	880461HZ4
2021	1,620,000	1.400	880461JA7	1,635,000	1.500	880461JB5
2022	1,650,000	1.650	880461JC3	1,670,000	1.750	880461JD1
2023	1,690,000	1.850	880461JE9	1,710,000	1.950	880461JF6
2024	1,730,000	2.000	880461JG4	1,750,000	2.050	880461JH2
2025	1,775,000	2.200	880461JJ8	1,800,000	2.250	880461JK5
2026	1,825,000	2.350	880461JL3	1,855,000	2.400	880461JM1
2027	1,880,000	2.500	880461JN9	1,910,000	2.550	880461JP4
2028	1,940,000	2.600	880461JU3	1,975,000	2.600	880461JV1
2029	2,010,000	2.700	880461JW9	2,045,000	2.700	880461JX7
2030	2,085,000	2.850	880461JY5	2,120,000	2.850	880461JZ2
2031	2,160,000	2.950	880461KA5	2,195,000	2.950	880461JQ2

\$48,230,000 Term Bonds			
<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
July 1, 2036	\$24,390,000	3.250%	880461JR0
July 1, 2038	8,400,000	3.375	880461JS8
January 1, 2047 (PAC)	15,440,000	3.500	880461JT6

PRICE OF ISSUE 2016-1A BONDS DUE JANUARY 1, 2047 (PAC): 106.882%

PRICE OF ISSUE 2016-1B BONDS DUE JANUARY 1, 2047 (PAC): 107.618%

PRICE OF ALL REMAINING ISSUE 2016-1 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

[†] Interest on the Issue 2016-1B Bonds is not included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds
\$24,060,000 Issue 2016-1A (AMT)
\$100,940,000 Issue 2016-1B (Non-AMT)[†]

INTRODUCTION

This Official Statement (the “Official Statement”) provides certain information in connection with the issuance by the Tennessee Housing Development Agency (“THDA”) of its Residential Finance Program Bonds, Issue 2016-1A in the aggregate principal amount of \$24,060,000 (the “Issue 2016-1A Bonds”), and Issue 2016-1B in the aggregate principal amount of \$100,940,000 (the “Issue 2016-1B Bonds” and, together with the Issue 2016-1A Bonds, the “Issue 2016-1 Bonds” or the “Offered Bonds”).

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the “Act”). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the “General Resolution”) and by a Resolution adopted by THDA on January 26, 2016, as amended and supplemented by the Bond Finance Committee of THDA (the “Bond Finance Committee”) on April 13, 2016 (the “Issue 2016-1 Supplemental Resolution”). The General Resolution and the Issue 2016-1 Supplemental Resolution are herein collectively referred to as the “Resolution.”

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2016-1 Bonds on January 25, 2016.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of February 29, 2016 (unaudited), Bonds in the aggregate principal amount of \$858,320,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$573,895,000 were outstanding under THDA’s Homeownership Program Resolution (the “1985 General Resolution”), and bonds in the aggregate principal amount of \$425,010,000 were outstanding under THDA’s Housing Finance Program Resolution (the “2009 General Resolution”). As of February 29, 2016, no bonds were outstanding under THDA’s Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”). All assets under the 1974 General Resolution have been transferred to the General Resolution. For more information see “RESIDENTIAL FINANCE PROGRAM LOANS-Description of Residential Finance Programs Loans-Transfer of Assets”.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption “SECURITY AND SOURCES OF PAYMENT OF BONDS”. All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the “Bonds”. The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the “Public Pledge Act”). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee’s codification of Article 9 of the Uniform Commercial Code.

[†]Interest on the Issue 2016-1B Bonds is not included in corporations’ calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix F for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects to use the proceeds from the issuance of the Issue 2016-1A Bonds to (i) refund all Issue 2006-3 Bonds issued and outstanding under the 1985 General Resolution (the "Prior Bonds") and (ii) make a deposit to the Bond Reserve Fund. As a result of the refunding, mortgage loans previously allocable to the Prior Bonds in an expected aggregate outstanding amount of approximately \$27,592,174 will be allocated to the Offered Bonds (the "Transferred Program Loans"). See "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS" for information about the Transferred Program Loans. In addition, other investments allocable to the Prior Bonds in the projected amount of approximately \$9,076,695 will be transferred to accounts established for the Offered Bonds under the General Resolution (the "Transferred Investments"). It is anticipated that the Prior Bonds will be redeemed prior to maturity on July 1, 2016, at a redemption price of 100% of the principal amount thereof plus accrued interest. No assurance can be provided that the Prior Bonds will actually be refunded.

THDA expects that the proceeds of the Issue 2016-1B Bonds will be used to: (i) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (ii) pay capitalized interest, if any; (iii) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (iv) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix H.

THDA is in the process of implementing a program for the origination of conventional mortgage loans to be pooled into mortgage-backed securities guaranteed as to timely payment of principal and interest by the Federal National Mortgage Association ("Fannie Mae" and "Fannie Mae Securities"). This program, if fully implemented, could result in use of bond proceeds to purchase Fannie Mae Securities to be held as Program Securities under the General Resolution. THDA may use a portion of the proceeds of the Offered Bonds to purchase Fannie Mae Securities although no assurances can be provided that THDA will do so. See Appendix C for additional information regarding Fannie Mae and Fannie Mae Securities.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution, including the Transferred Program Loans and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" shall include the Transferred Program Loans as well as any new Program Loans (including participations therein) financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix H. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program

Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2016-1 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA intends to purchase Program Loans insured by private mortgage insurance only to the extent such Program Loans are pooled into Fannie Mae Securities. While the Issue 2016-1 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of February 29, 2016 (unaudited), 9,360 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$853,470,830. Based on the outstanding principal balance of Program Loans as of February 29, 2016, approximately 89.09% were FHA insured, approximately 2.36% were VA guaranteed, approximately 1.39% were insured by private mortgage insurance companies, approximately 4.75% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.41% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See "RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data" and Appendix B under the heading "Private Mortgage Insurance Programs".

U.S. Bank National Association (the "Trustee") is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2016-1 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2016-1 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix E "2013 GENERAL RESOLUTION". Certain capitalized terms utilized herein are defined in Appendix E hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, ("DTC"), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each series and maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such series and maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix G "BOOK-ENTRY-ONLY SYSTEM" for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2016-1 Bonds and is payable on January 1, 2017, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2016-1A Bonds maturing on January 1, 2047, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2039, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2016-1A PAC Term Bonds Due January 1, 2047

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2039	\$1,315,000	\$1,340,000
2040	1,365,000	1,385,000
2041	1,410,000	1,435,000
2042	1,460,000	1,485,000
2043	1,510,000	1,540,000
2044	1,565,000	1,595,000
2045	1,620,000	1,650,000
2046	1,680,000	1,695,000
2047	10,000 (maturity)	

The Issue 2016-1B Bonds maturing on July 1, 2036, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2032, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2016-1B Term Bonds Due July 1, 2036

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2032	\$2,235,000	\$2,280,000
2033	2,320,000	2,365,000
2034	2,410,000	2,460,000
2035	2,505,000	2,555,000
2036	2,605,000	2,655,000 (maturity)

The Issue 2016-1B Bonds maturing on July 1, 2038, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2037, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2016-1B Term Bonds Due July 1, 2038

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2037	\$2,675,000	\$1,935,000
2038	1,880,000	1,910,000 (maturity)

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The Issue 2016-1B Bonds maturing on January 1, 2047, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2039, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2016-1B
PAC Term Bonds Due January 1, 2047**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2039	\$ 855,000	\$ 870,000
2040	885,000	900,000
2041	915,000	935,000
2042	950,000	965,000
2043	985,000	1,000,000
2044	1,020,000	1,035,000
2045	1,005,000	1,020,000
2046	1,040,000	1,050,000
2047	10,000 (maturity)	

Optional Redemption. The Issue 2016-1 Bonds maturing on and after January 1, 2026, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after July 1, 2025, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

The Issue 2016-1A Bonds maturing January 1, 2047 (the "Issue 2016-1A PAC Bonds") and the Issue 2016-1B Bonds maturing January 1, 2047 (the "Issue 2016-1B PAC Bonds" and, together with the Issue 2016-1A PAC Bonds, the "PAC Bonds") are subject to redemption at the option of THDA prior to their maturity, either as a whole or in part, at any time on or after July 1, 2025, at the Redemption Prices set forth below (expressed as a percentage of the principal amount to be redeemed) plus accrued interest to the date of redemption:

<u>Redemption Period</u>	<u>2016-1A PAC Bonds Redemption Price</u>	<u>2016-1B PAC Bonds Redemption Price</u>
July 1, 2025 to December 31, 2025	101.128%	101.237%
January 1, 2026 to June 30, 2026	100.809	100.882
July 1, 2026 to December 31, 2026	100.728	100.803
January 1, 2027 and thereafter	100.000	100.000

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2016-1 Principal Payments (as defined below). Any Excess 2016-1 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing January 1, 2017; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2016-1 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds are equal to or less than 400% PSA (as defined below under "ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds"), as determined by THDA, then available Excess 2016-1 Principal Payments shall first be applied to redeem PAC Bonds on a pro rata basis up to an amount correlating to the Planned Amortization Amount (as defined below) for the related PAC Bonds and, subject to the application of the 10-year rule as described below under the heading "*Mandatory Redemption – 10 Year Rule*," the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds are in excess of 400% PSA, as determined by THDA, then available Excess 2016-1 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the related PAC Bonds shall first be applied to redeem PAC Bonds on a pro rata basis and, subject to the application of the 10-year rule as described below under the heading "*Mandatory Redemption – 10 Year Rule*," the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an "Excess Principal PAC Bond Redemption"); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2016-1 Principal Payments which is in excess

of 400% PSA, (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds' proportionate amount of all Issue 2016-1 Bonds then Outstanding, and (iii) the PAC Bonds shall be redeemed on a pro rata basis.

"Excess 2016-1 Principal Payments" means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

"Planned Amortization Amount" means the dollar amount applicable to each PAC Bond for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the Issue 2016-1A PAC Bonds and Issue 2016-1B PAC Bonds, respectively, assumed to be redeemed from Excess 2016-1 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds. See "ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds" for a description of PSA prepayment rates.

The Planned Amortization Amounts for the Issue 2016-1A PAC Bonds and Issue 2016-1B PAC Bonds (which assumes the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination, the allocation of the Transferred Program Loans to the Offered Bonds in an aggregate principal amount of approximately \$27,592,174 with an approximate weighted average maturity of 248 months, and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedules

Date	Issue 2016-1A PAC Bonds Planned Amortization Amount	Issue 2016-1B PAC Bonds Planned Amortization Amount
January 1, 2017	\$ 740,000	\$ 480,000
July 1, 2017	1,480,000	960,000
January 1, 2018	2,555,000	1,645,000
July 1, 2018	3,945,000	2,535,000
January 1, 2019	5,620,000	3,610,000
July 1, 2019	7,455,000	4,785,000
January 1, 2020	9,220,000	5,920,000
July 1, 2020	10,890,000	6,990,000
January 1, 2021	12,465,000	8,000,000
July 1, 2021	13,945,000	8,950,000
January 1, 2022	15,335,000	9,845,000
July 1, 2022	16,630,000	10,680,000
January 1, 2023	17,840,000	11,455,000
July 1, 2023	18,965,000	12,175,000
January 1, 2024	20,005,000	12,840,000
July 1, 2024	20,960,000	13,455,000
January 1, 2025	21,835,000	14,020,000
July 1, 2025	22,630,000	14,525,000
January 1, 2026	23,345,000	14,985,000
July 1, 2026	23,980,000	15,395,000
January 1, 2027	24,060,000	15,440,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the related PAC Bonds are redeemed from amounts on deposit in the Issue 2016-1 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see "ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds."

Special Optional Redemption of the Offered Bonds, including Cross Calls The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading "DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds"; (ii) except as

otherwise described under the headings “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and “ – Mandatory Redemption – 10 Year Rule”, repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, “Code”), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, (b) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bond to exceed the related Planned Amortization Amount shown above in the PAC Bonds Amortization Schedules and (c) shall be redeemed on a pro rata basis to the extent of any such special optional redemption. The Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix E “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph and, to the extent PAC Bonds are redeemed pursuant to any special optional redemption, the PAC Bonds shall be redeemed on a pro rata basis. See “ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments” and “ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices”.

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof allocable to the Offered Bonds shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the related Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedules only if there are no other Offered Bonds outstanding and if the PAC Bonds are to be redeemed pursuant to this paragraph, the PAC Bonds shall be redeemed on a pro rata basis.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans (or portions thereof) allocable to the Offered Bonds in accordance with the following approximate 10 year rule percentages to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Commencement Date</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
May 18, 2016	19.37%
October 31, 2016	21.49
May 18, 2026	100.00%

THDA will redeem the Offered Bonds in accordance with this schedule to the extent required to comply with the Code. THDA reserves the right to modify this schedule at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory

redemption on January 1, 2017, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2016-1 Bonds Subaccount of the Loan Fund on December 1, 2016, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2016-1 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on November 1, 2019, to the extent any amounts remain on deposit in the Issue 2016-1 Bonds Subaccount of the Loan Fund on October 1, 2019.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding and, to the extent PAC Bonds are redeemed, the PAC Bonds shall be redeemed on a pro rata basis.

Selection By Lot

If less than all of the Issue 2016-1 Bonds of like series and maturity are to be redeemed, the particular Issue 2016-1 Bonds of such series and maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

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APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2016-1 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 125,000,000.00
Premium on Issue 2016-1A PAC Bond	1,655,809.20
Premium on Issue 2016-1B PAC Bond	1,176,219.20
Transferred Program Loans	27,592,174.40
Transferred Investments	9,076,694.58
TOTAL SOURCES	<u>\$ 164,500,897.38</u>

USES

Deposit to Loan Fund ⁽¹⁾	\$ 128,532,174.40
Redemption of Prior Bonds	24,060,000.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,300,000.00
Deposit to Bond Reserve Fund	9,601,719.51
Costs of Issuance	247,800.00
Underwriters' Fee	759,203.47
TOTAL USES	<u>\$ 164,500,897.38</u>

(1) Includes \$100,940,000.00 in proceeds from Issue 2016-1B plus \$27,592,174.40 in Transferred Program Loans.

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix E "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance

of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix E "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumptions that (i) Transferred Program Loans in the aggregate principal amount of approximately \$27,592,174, with a weighted average maturity of approximately 248 months and a weighted average interest rate of approximately 5.63%, will be allocated to the Offered Bonds and (ii) THDA originates approximately \$100,940,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 3.98%. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2016-1 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA, including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" for descriptions of the various Program Loan products and Appendix H "RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES" for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2016-1B Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 3.98% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2016-1B Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2016-1B Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on March 21, 2016. As of April 4, 2016, THDA has committed a total principal amount of approximately \$7,381,000 of Program Loans, all of which are Great Choice Program Loans and Homeownership for the Brave Program Loans, that will be allocated to the Offered Bonds. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans". Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

In recent years a number of financial institutions and related entities have announced large losses as a result of their mortgage activities and the increasing number of defaults and foreclosures on such mortgages. The United

States Congress has passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), and may pass additional consumer protection and bankruptcy legislation, as a result of the adverse effects of the mortgage situation on individuals and families in the United States. Likewise, the Tennessee General Assembly may enact consumer protection legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA's single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA's activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA's single-family loans could adversely affect the THDA's ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix E “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans (including Transferred Program Loans) will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” “- Special Optional Redemption of the Offered Bonds, including Cross Calls” and “- Mandatory Redemption – 10-Year Rule”.

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds.”

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA's general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA's current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA's determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix E "2013 GENERAL RESOLUTION" for a description of Program Expenses. THDA expects to use funds on deposit in the Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters' fees, initial Trustee's fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see "THDA – THDA Funds". THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum until July 1, 2018, 0.50% per annum until July 1, 2021, 1.0% per annum until July 1, 2025, and 1.25% per annum thereafter; and (iii) funds on deposit in the Issue 2016-1 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term "weighted average life" refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term "prepayment" includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association ("PSA")) prepayment standard or model (commonly referred to as the "PSA Prepayment Model").

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, "0% PSA" assumes no prepayments of principal on the Program Loans. "25% PSA" assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. "50% PSA" assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. "75% PSA" assumes the principal of Program Loans will prepay three-quarters as fast as the

prepayments rates for 100% of the PSA Prepayment Model. “100% PSA” assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. “150% PSA” assumes the principal of Program Loans will prepay at a rate 1.50 times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “200% PSA” assumes the principal of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. “300% PSA” assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “400% PSA” assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “500% PSA” assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors’ housing needs, job transfers, unemployment and mortgagors’ net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under “Changes in Federal or State Law” above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds”, and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2016-1 Bond Subaccount of the Loan Fund is applied to finance Program Loans, (ii) approximately \$27,592,174 of Transferred Program Loans with an approximate weighted average maturity of 248 months and an approximate weighted average interest rate of 5.63% will be allocated to the Offered Bonds, (iii) Excess 2016-1 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iv) the PAC Bonds will be redeemed only in the related Planned Amortization Amounts as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds” and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate. For certain information regarding Transferred Program Loans see “DESCRIPTION OF TRANSFERRED PROGRAM LOANS” herein.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>Issue 2016-1A PAC Bond Average Life (in years)</u>	<u>Issue 2016-1B PAC Bond Average Life (in years)</u>
0%	25.1	25.1
25	19.4	19.4
50	13.0	13.0
75	7.9	7.9
100	5.0	5.0
200	5.0	5.0
300	5.0	5.0
400	5.0	5.0
500	4.2	4.2

RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

THDA has issued \$962,205,000 total original principal amount of bonds under the General Resolution, of which \$894,660,000 (unaudited) were outstanding as of February 29, 2016, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of February 29, 2016 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$215,905,000	\$158,345,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	100,430,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	136,365,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	139,280,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	148,900,000	3.31
Issue 2015-2	October 15, 2015	<u>175,000,000</u>	<u>175,000,000</u>	3.25
TOTAL		<u>\$962,205,000</u>	<u>\$858,320,000</u>	

(1) Bond yield.

Origination Experience

THDA's experience from May 30, 2013, to February 29, 2016, regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

<u>Issue of Bonds</u>	<u>Lendable Proceeds⁽²⁾</u>	<u>Program Loans Financed⁽³⁾ as of February 29, 2016</u>		<u>Weighted Average Interest Rate⁽⁴⁾</u>
		<u>Amount</u>	<u>%</u>	
Issue 2013-1	\$135,268,395	\$135,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,527,519	99.73	4.05
Issue 2015-2	<u>133,950,000</u>	<u>97,860,437</u>	73.06	4.09
TOTAL	<u>\$711,068,875</u>	<u>\$674,625,829</u>		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included. All lendable proceeds with respect to the Issue 2015-2 Bonds were committed as of March 20, 2016.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on March 21, 2016, and as of April 4, 2016, THDA has committed a total principal amount of approximately \$7,381,000 of Program Loans that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic

location. The THDA Household Income Limits range from \$56,280 to \$93,660 depending on household size and geographic location. See Appendix H for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix H. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2016-1 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance unless such Program Loans are pooled into Fannie Mae Securities. While the Issue 2016-1 Supplemental Resolution provides that all participations in Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include (i) a minimum credit score of 640 for all borrowers; (ii) no manual underwriting; and (iii) a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date, including the Transferred Program Loans, were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave Loans, all as described below. Transferred Program Loans financed prior to September 30, 2013, are Great Rate, Great Advantage, Great Start or Homeownership for the Brave Program Loans. On and after October 1, 2013, the THDA primary loan program includes Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. On and after October 1, 2013, THDA provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 3.99%.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans. From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans in a principal amount equal to 4% of the purchase price of the property purchased. Since October 1, 2014, Great Choice Plus Loans are 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, each Great Choice Plus loan will be forgiven at twenty percent per year and the amount due on sale will be reduced by the

forgiven amount. Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA and will not be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable. As of February 29, 2016 (unaudited), 89 New Start Program Loans, with an aggregate principal balance of approximately \$4,550,722, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction. As of February 29, 2016 (unaudited), 199 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$22,220,416, were outstanding under the General Resolution. Eligible borrowers will also be eligible for Great Choice Plus loans. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became Transferred Program Loans allocable to the Issue 2013-1 Bonds under the General Resolution. As of February 29, 2016 (unaudited), 212 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$13,281,763, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers who had loan applications dated on or before September 30, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds.

An amount equal to 4% of the loan amount was made available as a grant to borrowers for downpayment and closing cost assistance in connection with Great Start Program Loans. An amount equal to 2% of the loan amount was made available as a grant to borrowers for downpayment and closing cost assistance in connection with Great Advantage Program Loans. THDA financed this downpayment and closing cost assistance from excess revenues available outside the General Resolution and retains a portion of the interest collected on Great Start Program Loans and Great Advantage Program Loans to reimburse itself for the amount of this assistance.

As of February 29, 2016, 1,721 Great Rate, 23 Great Advantage, and 1,814 Great Start Program Loans, with an aggregate principal balance of approximately \$312,027,718, were outstanding under the General Resolution.

Although Transferred Program Loans include Great Rate or Great Start Program Loans, THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of February 29, 2016 (unaudited), 9,360 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$853,470,830 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 311.32 months and an approximate weighted average interest rate of 4.45%.

All tables under this heading, "Residential Finance Program Portfolio Data", include data about 1974 General Resolution Transferred Loans, but do not include data about Transferred Program Loans. For more information about 1974 General Resolution Transferred Loans see "RESIDENTIAL FINANCE PROGRAM LOANS-Description of Residential Finance Program Loans-Transfer of Assets". For more information about Transferred Program Loans see "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS".

Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of February 29, 2016 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured	8,036	\$760,330,485	85.85%	89.09%
VA Guaranteed	222	20,142,303	2.37	2.36
Privately Insured	175	11,891,524	1.87	1.39
USDA/RD Guaranteed	606	40,567,325	6.47	4.75
Uninsured ⁽²⁾	<u>321</u>	<u>20,539,193</u>	<u>3.43</u>	<u>2.41</u>
TOTAL	<u>9,360</u>	<u>\$853,470,830⁽⁴⁾</u>	<u>100.00%⁽⁴⁾</u>	<u>100.00%⁽⁴⁾</u>

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution upon the refunding of other THDA obligations, including certain of the Transferred Program Loans, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

As of February 29, 2016 (unaudited), 175⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$11,891,524 were outstanding under the General Resolution. As of February 29, 2016 (unaudited), THDA had the following information regarding the private mortgage insurers for 113 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance</u> ⁽³⁾	<u>Percent of Total Number of Program Loans</u> ⁽³⁾	<u>Percent of Total Outstanding Balance of Program Loans</u> ⁽³⁾
Commonwealth/CMAC	3	\$ 88,830	0.03%	0.01%
Genworth Mortgage Insurance Corp. (GE)	34	2,648,566	0.36	0.31
MGIC	28	2,391,963	0.30	0.28
PMI Mortgage Insurance Co. ⁽²⁾	2	151,308	0.02	0.02
Radian Guaranty Inc.	6	347,777	0.06	0.04
Republic Mortgage Insurance Corporation	23	1,429,160	0.25	0.17
Triad Guaranty Insurance Corporation ⁽²⁾	9	636,384	0.10	0.07
United Guaranty Residential Insurance Co.	<u>8</u>	<u>505,497</u>	<u>0.09</u>	<u>0.06</u>
TOTAL	<u>113</u>	<u>\$8,199,484</u> ⁽⁴⁾	<u>1.21%</u> ⁽⁴⁾	<u>0.96%</u> ⁽⁴⁾

(1) The private mortgage insurer is not identified with respect to 62 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA compiled data with respect to individual private mortgage insurance providers.

(2) In accordance with judicial actions instituted by their respective state insurance regulators, PMI Mortgage Insurance Co. and Triad Guaranty Insurance Corporation currently are paying claims at the rates of \$.70 per \$1.00 and \$.75 per \$1.00, respectively.

(3) Rounded figures.

(4) Rounded total.

In addition to the foregoing, THDA is in the process of implementing a program under which THDA approved originating agents would make loans to qualified borrowers to finance the purchase of qualified single-family residences in Tennessee that are insured by private mortgage insurance issued by an entity acceptable to Fannie Mae. Such loans would be pooled and would back Program Securities guaranteed as to timely payment of principal and interest by Fannie Mae. THDA may purchase such Program Securities using bond proceeds and such purchased Program Securities would be held under the General Resolution. THDA may use a portion of proceeds of the Offered Bonds to purchase Fannie Mae Securities although no assurances can be provided that THDA will do so. THDA does not expect to use proceeds of the Offered Bonds to directly purchase conventional loans backed by private mortgage insurance unless such loans are pooled into Program Securities. See Appendix C for additional information regarding Fannie Mae and Fannie Mae Securities.

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Program Loan Interest Rates

The following table summarizes, as of February 29, 2016 (unaudited), the interest rates of the outstanding Program Loans:

<u>Mortgage Rates (%)</u>	<u>Number of Program Loans⁽¹⁾</u>	<u>Outstanding Balance⁽²⁾</u>	<u>Percent of Total Number of Program Loans⁽²⁾</u>	<u>Percent of Total Outstanding Balance⁽²⁾</u>
0.00-2.99	154	\$ 7,546,258	1.65%	0.88%
3.00-3.99	2,330	265,504,090	24.89	31.11
4.00-4.49	3,053	361,329,174	32.62	42.34
4.50-4.99	714	55,651,207	7.63	6.52
5.00-5.49	648	51,247,989	6.92	6.00
5.50-5.99	1,103	52,887,281	11.78	6.20
6.00-6.49	324	25,141,391	3.46	2.95
6.50-6.99	497	20,158,174	5.31	2.36
7.00-7.49	227	6,586,477	2.43	0.77
7.50-7.99	221	5,198,530	2.36	0.61
8.00-8.49	82	2,139,205	0.88	0.25
8.50-9.49	4	70,357	0.04	0.01
9.50-12.00	<u>3</u>	<u>10,697</u>	<u>0.03</u>	<u>0.00</u>
TOTAL	<u>9,360</u>	<u>\$853,470,830⁽³⁾</u>	<u>100.00%⁽³⁾</u>	<u>100.00%⁽³⁾</u>

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have passed with no payment received by the last business day of the month in which the second payment was due are considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

The financial institutions who service Program Loans manage delinquencies by working with borrowers in an attempt to avoid defaults and by sending payment requests to borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

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Delinquencies and Foreclosures as of February 29, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.52%, based on a total of 9,360 Program Loans as of February 29, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of February 29, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2015, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF FEBRUARY 29, 2016

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	114	\$ 9,480,435	1.42%	1.40% ⁽⁴⁾
VA Guaranteed	6	576,783	2.70	0.87
Privately Insured	0	0	0.00	0.45 ⁽⁵⁾
USDA/RD Guaranteed.....	14	882,368	2.31	⁽⁶⁾
Uninsured.....	<u>8</u>	<u>521,754</u>	2.49	⁽⁶⁾
TOTAL	<u>142</u>	<u>\$11,461,340⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.48%, based on a total of 9,360 Program Loans as of February 29, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of February 29, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2015, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF FEBRUARY 29, 2016

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	368	\$28,433,491	4.58%	2.52% ⁽⁴⁾
VA Guaranteed	16	1,252,958	7.21	1.71
Privately Insured	7	359,696	4.00	0.84 ⁽⁵⁾
USDA/RD Guaranteed.....	20	1,543,725	3.30	⁽⁶⁾
Uninsured.....	<u>8</u>	<u>380,893</u>	2.49	⁽⁶⁾
TOTAL	<u>419</u>	<u>\$31,970,763⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.48%, based on a total of 9,360 Program Loans as of February 29, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of February 29, 2016 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2015, are as follows:

IN FORECLOSURE AS OF FEBRUARY 29, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	41	\$3,673,933	0.51%	1.59% ⁽⁴⁾
VA Guaranteed	2	118,680	0.90	1.00
Privately Insured	0	0	0.00	0.32 ⁽⁵⁾
USDA/RD Guaranteed.....	2	150,159	0.33	(6)
Uninsured.....	0	0	0.00	(6)
TOTAL	45	\$3,942,771 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS

General

As of February 29, 2016, the Transferred Program Loans have an approximate weighted average maturity of 250.57 months and a weighted average interest rate of 5.63% per annum. Average prepayment rate information for the Transferred Program Loans is discussed in "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS – Prepayment Experience of Transferred Program Loans" below. It is anticipated that the characteristics of the pool of Transferred Program Loans will be substantially similar to the loans described below (such information below is as of February 29, 2016; the Transferred Program Loans will not be allocable to the Offered Bonds until May 18, 2016, and Transferred Program Loan characteristics may change slightly from February 29, 2016, to May 18, 2016).

Transferred Program Loans by Loan Type

Type of Mortgage	Number	Principal Amount ⁽³⁾	% of Transferred Principal Amount
FHA Insured	165	\$14,147,395	49.48%
VA Guaranteed	5	392,160	1.37
Privately Insured ⁽¹⁾	99	9,053,791	31.67
USDA/RD Guaranteed.....	44	3,430,291	12.00
Uninsured ⁽²⁾	22	1,568,537	5.49
TOTAL	335	\$28,592,174 ⁽⁴⁾	100.00%

(1) This includes Program Loans for which private mortgage insurance was in place at the time of the closing of the respective Program Loan.

(2) Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, and Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Transferred Program Loans

Each private mortgage insurer insuring conventional, privately insured THDA Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured THDA Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

As of February 29, 2016 (unaudited), 99 privately insured Transferred Program Loans having an aggregate principal balance of approximately \$9,053,791 were outstanding.

Prepayment Experience of Transferred Program Loans

The Transferred Program Loans are composed of mortgage loans originally allocable to the Prior Bonds. The table set forth below lists the actual average prepayment rate (principal only) experience as a percentage of the PSA Prepayment Model of the mortgage loans allocable to the Prior Bonds for the 3 month, 6 month and 12 month periods ended on February 29, 2016, based on principal prepayment data available to THDA.

<u>Issue</u>	<u>3 Months</u>	<u>6 Months</u>	<u>12 Months</u>	<u>Since Inception</u>	<u>Weighted Average Interest Rate</u>
2006-3	304%	339%	310%	220%	5.63%

Delinquency Information for the Transferred Program Loans

The overall delinquency rate for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due was 0.60%, based on a total of 335 Transferred Program Loans as of February 29, 2016 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due as of February 29, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending December 31, 2015, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF FEBRUARY 29, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	2	\$186,970	1.21%	1.40% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.87
Privately Insured	0	0	0.00	0.45 ⁽⁵⁾
USDA/RD Guaranteed	0	0	0.00	⁽⁶⁾
Uninsured	<u>0</u>	<u>0</u>	0.00	⁽⁶⁾
TOTAL	<u>2</u>	<u>\$186,970⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate for the Transferred Program Loans that were ninety (90) days past due was 6.27%, based on a total of 335 Transferred Program Loans as of February 29, 2016 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were ninety (90) days past due as of February 29, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending December 31, 2015, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF FEBRUARY 29, 2016

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	16	\$1,379,171	9.70%	2.52% ⁽⁴⁾
VA Guaranteed	0	0	0.00	1.71
Privately Insured	3	318,720	3.03	0.84 ⁽⁵⁾
USDA/RD Guaranteed.....	2	125,931	4.55	(6)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(6)
TOTAL	<u>21</u>	<u>\$1,823,821⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The rate of Transferred Program Loans in foreclosure was 0.30%, based on a total of 335 Transferred Program Loans as of February 29, 2016 (unaudited).

The foreclosure rate by loan type for the Transferred Program Loans in foreclosure as of February 29, 2016 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA, by loan type, for the quarter ending December 31, 2015, are shown in the following table:

IN FORECLOSURE AS OF FEBRUARY 29, 2016

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	1	\$146,503	0.61%	1.59% ⁽⁴⁾
VA Guaranteed	0	0	0.00	1.00
Privately Insured	0	0	0.00	0.32 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	(6)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(6)
TOTAL	<u>1</u>	<u>\$146,503⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix J.

FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the three most recent years and for the six months ended December 31, 2015, and December 31, 2014. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2015, 2014, and 2013, and from unaudited financial information of THDA for the six months ended December 31, 2015 and December 31, 2014.

Residential Finance Bond Group	Six Months Ended December 31 (Unaudited)		Year Ended June 30 (Audited)		
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES:					
Interest on Mortgages	\$ 17,481	\$ 11,612	\$ 25,393	\$ 13,518	\$ 222
Investment Income:					
Interest	1,031	882	1,866	335	10
Net Increase (decrease) in the Fair Value of Investments	(269)	(105)	(552)	(146)	(83)
Fees and Other Income	645	37	160	-	76
	<u>18,888</u>	<u>12,426</u>	<u>26,867</u>	<u>13,707</u>	<u>225</u>
EXPENSES:					
Interest	11,506	7,596	17,058	9,087	551
Issuance Cost	1,303	1,108	2,343	2,167	1,679
Mortgage Servicing Fees	1,379	932	2,048	980	18
Other	655	454	1,001	239	1
	<u>14,843</u>	<u>10,090</u>	<u>22,450</u>	<u>12,473</u>	<u>2,249</u>
Excess of Revenues over Expenses	4,045	2,336	4,417	1,234	(2,024)
Net Position at beginning of period	101,055	105,707	105,707	(68,279)	-
Other Transfers	(6,777)	18,864	(9,069)	172,752	(66,255)
Net Position at end of period	<u>\$ 98,323</u>	<u>\$ 126,907</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>	<u>\$ (68,279) ⁽¹⁾</u>

⁽¹⁾ On May 30, 2013 THDA issued its Issue 2013-1 Bonds under the General Resolution. Proceeds of the Issue 2013-1 Bonds in an aggregate principal amount of \$75,905,000 were applied to the refunding of THDA's Issue 2003-A Bonds under the 1974 General Resolution and THDA's Issue 2004-1 Bonds under the 1985 General Resolution. While the Issue 2013-1 Bonds were issued on May 30, 2013, the assets allocable to the Issue 2003-A and the Issue 2004-1 Bonds in an aggregate amount of approximately \$99,855,200 did not transfer to the General Resolution until July 1, 2013, the date of the redemption of such bonds. As a result of such transfer, the net position of the General Resolution as of July 1, 2013, was approximately \$31,576,000 (unaudited).

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of February 29, 2016 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Farm Credit Bank Notes.....	\$ 0	\$ 99,250
Federal Home Loan Bank Notes	45,592,819	18,896,077
Federal Home Loan Mortgage Corporation Notes	4,881,536	5,972,742
Fannie Mae Notes	5,489,125	11,143,243
Financing Corporation Bonds	0	2,629,351
United States Treasury Bonds.....	5,132,593	0
TOTAL.....	<u>\$ 61,096,073</u>	<u>\$ 38,740,663</u>

As of February 29, 2016 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 0	\$ 11,914,637
Federal Home Loan Mortgage Corporation Notes	1,030,516	0
Fannie Mae Notes	0	6,106,598
TOTAL.....	<u>\$ 1,030,516</u>	<u>\$ 18,021,235</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2018.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of February 29, 2016 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$1,857,225,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, two at-large board members appointed by the Governor who are knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors⁽¹⁾ are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
John L. Baker	June 30, 2016	Former Executive Director, Health, Educational & Housing Facility Board, Memphis, TN
Brian Bills, Chairman	June 30, 2017	Sr. Vice President, Residential Mortgage Lending SunTrust Mortgage, Inc., Knoxville, TN
Kim Grant Brown	June 30, 2019	Owner, Grant & Company Collierville, TN
Dorothy L. Cleaves	June 30, 2016	Community Development Manager, SunTrust Bank Memphis, TN
Kendra Cooke	June 30, 2019	Broker, Cooke Realty Partners/Bob Parks Realty Brentwood, TN
Tre Hargett ⁽²⁾	January, 2017	Secretary of State
Ronald K. Jones	June 30, 2016	Executive Director, Trevecca Towers Nashville
David H. Lillard, Jr. ⁽²⁾	January, 2017	State Treasurer
Larry Martin ⁽²⁾	(3)	Commissioner, Department of Finance and Administration
Ashleigh Harb Roberts ⁽²⁾	(3)	Deputy Counsel to the Governor
James Sattler	June 30, 2019	Vice Chair, Chattanooga Housing Authority Board of Commissioners, Chattanooga, TN
Benjie Shuler	June 30, 2016	Real Estate Broker, Collins & Shuler Management Knoxville, TN
Pieter J. van Vuuren	June 30, 2019	President & CEO, First National Bank of McMinnville McMinnville, TN
Justin Wilson ⁽²⁾	January, 2017	Comptroller of the Treasury
Daisy Fields	(4)	Gallatin, TN

(1) One Board of Director position appointed by the Governor under T.C.A. Section 13-23-107(a) is vacant.

(2) Ex officio member.

(3) Serves at pleasure of the Governor.

(4) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 213 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Servicing since February 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Administrative Officer of Single Family Programs since November 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Sivage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010).

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Conners & Berry, Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999), Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the "State") amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution, the Residential Finance Program and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the Residential Finance Program or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

As of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ending June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees.

The TCRS covers three large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 61,180 active members in TCRS in the state and higher education employee group at June 30, 2015. This total includes 238 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

The most recent actuarial valuation was completed as of June 30, 2015 and established the employer contribution rates for the period July 1, 2016 through June 30, 2017. The next actuarial valuation will be as of June 30, 2016 and will establish employer contribution rates for the period July 1, 2017 through June 30, 2018. The July 1, 2013 actuarial valuation established the employer contribution rates for the two year period beginning July 1, 2014 and ending June 30, 2016.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age 60 or 30 years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute at 5% of salary to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age 65 or the rule of 90 (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan,

requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute 15.03% of salary for the period July 1, 2014 through June 30, 2016 while employees do not contribute to the plan. The July 1, 2013 actuarial valuation established the 15.03% employer contribution rate for this period. The June 30, 2015 actuarial valuation established the employer contribution rate of 15.02% that is applicable for the period July 1, 2016 through June 30, 2017.

An actuarial valuation was performed as of June 30, 2014 to determine the TCRS financial position in order to provide information related to new Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2014, the net pension liability for the state and higher education employee group based on the market value of assets was \$690 million, resulting in a plan fiduciary net position as a percentage of total pension liability of 95.11%. The June 30, 2015 actuarial valuation has been completed for establishing the employer rate, but the GASB accounting data will not be completed until late April of 2016.

Actuarial Data for Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, the overall 4% employer contribution rate for the fiscal year ended June 30, 2015, consists of 3.87% for general employees, with the employer rate for judicial and public safety employees being higher at 7.00% and 4.62%, respectively. The employer contribution rate for general employees of 3.87% consists of 2.00% for the ADC and 1.87% for the stabilization reserve.

An actuarial valuation at June 30, 2015 established that the employer overall rate will remain at the minimum statutory level of 4%. For the fiscal year ended June 30, 2017, the employer rate for general employees will be 3.94% while the employer rate for judicial and public safety employees will be 6.27% and 4.69%, respectively. The employer contribution rate for general employees of 3.94% consists of 1.13% for the ADC and 2.81% for the stabilization reserve.

The June 30, 2015 actuarial valuation has been completed for establishing the employer rate, but the GASB accounting data will not be completed until late April of 2016. For the first time, this report will provide the funded ratio and net pension liability (asset) pursuant to the GASB standards.

THDA Employer Contributions to TCRS

For THDA, the employer contribution rate, stated as a percentage of salary, for the period beginning July 1, 2014, and ending June 30, 2016, is 15.03% based on the actuarial valuation performed as of July 1, 2013, for employees hired before July 1, 2014. For employees first hired after June 30, 2014, the employer rate is 8.87% (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions to TCRS are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	Percentage of THDA Budget
2016*	15.03/9%**	\$13,316,900*	\$1,938,230*	1.59%
2015	15.03/9%**	11,569,902	1,673,881	1.19
2014	15.03	11,721,300	1,761,711	1.19
2013	15.03	11,315,872	1,692,847	1.26
2012	14.91	11,005,204	1,632,095	1.36
2011	14.91	10,593,944	1,585,654	1.25
2010	13.02	9,956,646	1,295,272	1.03
2009	13.02	9,267,262	1,201,303	0.98
2008	13.66	9,602,067	1,297,298	1.02
2007	13.58	8,644,241	1,175,459	0.96

*Estimated

**Varies depending on plan the employee is enrolled in.

For the fiscal year ending June 30, 2015, the salary of THDA employees totaled \$11,569,902, which represents 0.43% of the \$2.64 billion of salary for all state and higher education employees in TCRS.

It is anticipated that there will be upward pressure on the employer contribution rate in the Closed State and Higher Education Employee Pension Plan in future actuarial valuations as deferred investment losses that have been actuarially smoothed are recognized over the next ten years.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

The state provides an additional voluntary defined contribution plan to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

General Information about the 401(k) and 457 Defined Contribution Plans

Employee contribution limits to the 401(k) plan are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

For the fiscal year ended June 30, 2015, 173 THDA employees made contributions to the 401(k) plan and 10 THDA employees made contributions to the 457 plan. THDA made employer contributions to the 401(k) plan that totaled \$86,335 while THDA employees contributed a total of \$243,815 to the 401(k) plan and the 457 plan.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 43 and 45) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2013, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used a projected unit credit actuarial cost method, indicates that for the fiscal year ended June 30, 2015, the total unfunded actuarial liability of THDA is approximately \$2,964,000 and the annual required contribution for THDA is approximately \$356,000. The annual required contribution consists of the normal cost (the portion of the actuarial present value of OPEB benefits which is allocated to a valuation year by the actuarial cost method) and an amortization of the unfunded actuarial liability. The report may be reviewed at <http://www.tennessee.gov/finance/act/OPEB.html>. A new actuarial study is expected to be published in the fall of 2016. The State does not currently expect to fund any actuarially determined OPEB liability, but will continue to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for the fiscal year. The State will charge THDA for these actual costs allocable to THDA's employees, but not for any

actuarially determined OPEB liability. The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain tests to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix E. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that (i) interest on the Issue 2016-1A Bonds will be treated as a preference item for purposes of calculating the alternative minimum tax imposed on individuals and corporations and (ii) interest on the Issue 2016-1B Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of

issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a "Premium Bond") over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and that Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

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

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, THDA, in the Issue 2016-1 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2016-1 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix F hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MRSB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2016-1 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a

change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2016-1 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2016-1 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2016-1 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MSRB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix I. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2015, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the six months ended December 31, 2015. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

RBC Capital Markets, LLC, Raymond James & Associates, Inc., Citigroup Global Markets Inc., FTN Financial Capital Markets, J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and J.J.B. Hilliard, W.L. Lyons, LLC (collectively, the "Underwriters") have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$759,203.47. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

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

Citigroup, an underwriter of the Offered Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Offered Bonds.

FTN Financial Capital Markets is a division of First Tennessee Bank National Association and FTB Advisors, Inc. is a wholly-owned subsidiary of First Tennessee Bank National Association. FTN Financial Capital Markets has entered into a distribution agreement with FTB Advisors, Inc. for the distribution of the Offered Bonds at the original issue prices. Such arrangement generally provides that FTN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with FTB Advisors, Inc.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

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

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference

to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Brian Bills

Chairman

/s/ Ralph M. Perrey

Executive Director



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
 DEPARTMENT OF AUDIT
 DIVISION OF STATE AUDIT

SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
 505 DEADERICK STREET
 NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
 FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
 Members of the General Assembly
 Members of the Board of Directors
 Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the Notes, the agency implemented Governmental Accounting Standards Board Statement (GASBS) 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASBS 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the other postemployment benefits schedule of funding progress, schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and schedule of contributions to the State and Higher Education Employee Retirement Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2015, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA
Director
December 23, 2015

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the years ended June 30, 2015, with comparative information presented for the fiscal year ended June 30, 2014. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2015, THDA has originated over 115,000 single-family mortgage loans in its 42-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

More recently, THDA has administered programs under the American Recovery and Reinvestment Act of 2009 (ARRA), including the Homeless Prevention and Rapid Re-Housing Program (HPRP), the Tax Credit Assistance Program (TCAP), the Neighborhood Stabilization Program (NSP), and a Low Income Housing Tax Credit exchange program under Section 1602 of the Act.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated 13-23-105*). This board meets regularly on a bi-monthly basis; however, some committees may meet more often as situations dictate.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discreetly presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <http://www.tn.gov/finance/article/fa-accfin-cafr>.

During fiscal year 2015, THDA implemented accounting standard GASB Statement 68, Accounting and Financial Reporting for Pensions. The Statement requires the reporting of an organization's net pension liability on the face of the financial statements. Implementation of this Statement resulted in a revision of THDA's Net Position as of July 1, 2014, which has been reported as a Prior Period Adjustment.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2015

- Total assets increased by \$1.9 million, or 0.1%.
- Deferred outflows of resources increased \$1.4 million, or 112.2%.
- Total liabilities increased by \$11.6 million, or 0.6%.
- Net position was \$514.4 million. This is a decrease of \$12.5 million, or 2.4%, from fiscal year 2014.
- Cash and cash equivalents increased by \$27.6 million, or 10.1%.
- Total investments increased by \$3.3 million, or 1.3%.
- Bonds payable decreased by \$5.1 million, or 0.3%.
- Deferred inflows of resources increased \$4.3 million. The amount of deferred inflows of resources as reported on the FY 2014 financial statements was \$0.
- THDA originated \$250.8 million in new loans, which is an increase of \$23.5 million, or 10.3%, from the prior year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

FINANCIAL ANALYSIS OF THE AGENCY

Net Position. The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	<u>2015</u>	<u>2014</u>
Current assets	\$ 442,792	\$ 400,662
Capital assets	512	626
Other noncurrent assets	<u>2,123,193</u>	<u>2,163,308</u>
Total assets	<u>2,566,497</u>	<u>2,564,596</u>
Deferred outflows of resources	<u>2,653</u>	<u>1,250</u>
Current liabilities	191,375	171,907
Noncurrent liabilities	<u>1,859,097</u>	<u>1,867,011</u>
Total liabilities	<u>2,050,472</u>	<u>2,038,918</u>
Deferred inflows of resources	4,271	-
Invested in capital assets	512	626
Restricted net position	441,196	449,905
Unrestricted net position	<u>72,699</u>	<u>76,397</u>
Total net position	<u><u>\$ 514,407</u></u>	<u><u>\$ 526,928</u></u>

2015 to 2014

- THDA's total net position decreased by \$12.5 million, or 2.4%, from \$526.9 million at June 30, 2014 to \$514.4 million at June 30, 2015. This change resulted from a decrease in net position of \$6.8 million for the cumulative effect of a change in accounting principle caused by the implementation of GASB 68, operating income of \$9.7 million, and non-operating expenses of \$15.4 million.
- First and Second mortgage loans receivable decreased by \$33.5 million or 1.7% from \$1,966.3 million on June 30, 2014 to \$1,932.8 million on June 30, 2015. During FY 2015, single-family mortgage loan originations increased by \$23.5 million or 10.3% from \$227.3 million at June 30, 2014 to \$250.8 million at June 30, 2015. Mortgage loan payoffs increased by \$38.4 million or 26.0% from \$147.6 million at June 30, 2014 to \$186.0 million at June 30, 2015. Mortgage loan repayments increased \$2.3 million, or 4.5%, from \$51.2 million at June 30, 2014 to \$53.5 million at June 30, 2015. In addition, THDA recognized an allowance for forgivable second mortgages of \$2.9 million, whereas no such allowance was recorded at June 30, 2014.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

- Total liabilities increased \$11.6 million or 0.6% from \$2,038.9 million on June 30, 2014 to \$2,050.5 million on June 30, 2015. The increase is primarily due to an increase in accounts payable at June 30, 2015 as compared to June 30, 2014, as well as reporting a pension liability as a result of implementing GASB 68.

Changes in Net Position. The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	<u>2015</u>	<u>2014</u>
Operating revenues		
Mortgage interest income	\$ 96,999	\$ 102,108
Investment income	6,535	6,346
Other	16,512	19,027
Total operating revenues	<u>120,046</u>	<u>127,481</u>
Operating expenses		
Interest expense	66,389	70,390
Other	43,932	42,941
Total operating expenses	<u>110,321</u>	<u>113,331</u>
Operating income	<u>9,725</u>	<u>14,150</u>
Nonoperating revenues (expenses)		
Grant revenues	307,012	295,814
Grant expenses	<u>(322,465)</u>	<u>(309,503)</u>
Total nonoperating revenues (expenses)	<u>(15,453)</u>	<u>(13,689)</u>
Change in net position	<u>\$ (5,728)</u>	<u>\$ 461</u>

2015 to 2014

Total operating revenues decreased \$7.4 million, or 5.8%, from \$127.5 million for the year ended June 30, 2014, to \$120.1 million for the year ended June 30, 2015. The primary reasons for this decrease are as follows:

- Mortgage interest income decreased \$5.1 million, or 5.0%, from \$102.1 million in 2014 to \$97.0 million in 2015. This is due to new mortgage loan originations having lower interest rates than those associated with mortgage loan repayments.
- Total operating expenses decreased \$3.0 million, or 2.7%, from \$113.3 million in fiscal year 2014 to \$110.3 million in fiscal year 2015. A leading factor in this decrease is a decrease in interest expense, due to the use of mortgage loan prepayments to redeem

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

bonds in advance of their maturities, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

DEBT ACTIVITY

Bonds outstanding at June 30 were as follows (expressed in thousands):

	<u>2015</u>	<u>2014</u>
Bonds payable	\$ 1,979,170	\$ 1,984,298

Year Ended June 30, 2015

Total bonds and notes payable decreased \$5.1 million, or 0.3%, due primarily to an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling \$477.8 million, with activity arising from three bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$213.4 million of outstanding bonds into new bond originations with lower interest rates.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard & Poor's Ratings Services (S&P), a division of the The McGraw-Hill Companies, Inc. has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during FY 2015 or FY 2014.

Debt Limits

In accordance with *Tennessee Code Annotated*, 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

GRANT PROGRAMS

During FY 2007 through FY 2009, the General Assembly has appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors has allocated additional THDA funds for grants. These funds established a grant program that has been titled by the THDA as the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

	FY 2015	FY 2014	FY 2013	FY 2012 and Prior	Total
Funding Sources:					
THDA	\$ 7,500,000	\$ 9,300,000	\$ 6,500,000	\$ 36,500,000	\$ 59,800,000
State Appropriation	-	-	-	4,350,000	4,350,000
Totals	\$ 7,500,000	\$ 9,300,000	\$ 6,500,000	\$ 40,850,000	\$ 64,150,000
Approved Uses:					
Rural repair program (USDA)	\$ 700,000	\$ 700,000	\$ 700,000	\$ 4,200,000	\$ 6,300,000
Ramp Programs & Hsg Modification	150,000	150,000	150,000	900,000	1,350,000
Emergency Repairs	1,800,000	2,000,000	-	12,000,000	15,800,000
Competitive Grants	2,850,000	3,850,000	5,150,000	22,950,000	34,800,000
Rebuild & Recover	500,000	2,300,000	-	-	2,800,000
Other Grants	1,500,000	300,000	500,000	800,000	3,100,000
Totals	\$ 7,500,000	\$ 9,300,000	\$ 6,500,000	\$ 40,850,000	\$ 64,150,000

In addition to the above funding, local grants could produce an additional \$4 million or more in funding each year. Also, the Emergency Repairs for the Elderly program and the Competitive Grants have a 50% grantee match requirement.

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the *Great Choice* and the *Great Choice Plus* loan programs were introduced and the *Great Rate*, *Great Advantage* and *Great Start* loan programs were eliminated. The *Great Choice* loan program offers THDA the opportunity to offer a more competitive interest rate on its 30 year fixed rate mortgage product while still offering down payment assistance with the addition of the *Great Choice Plus* loan program which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the *Great Choice Plus* loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15.

A special interest rate reduction on *Great Choice* loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as "*Homeownership for the Brave*", provides a 0.5% rate reduction on the current interest rate for *Great Choice* loans. In addition to the rate reduction, "*Homeownership for the Brave*" applicants are eligible for optional down payment and closing cost assistance through the *Great Choice Plus* second mortgage loan at a 0% interest rate.

All loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages (ARMs), interest-only mortgages, "buy-down" loans, mortgages with a future lump-sum payment due (balloon-type mortgage), or with other similar mortgage terms. THDA does not make or purchase "sub-prime" mortgage loans.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers, who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor's Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at <http://www.thda.org/index.aspx?NID=8>.

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2015, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

<u>Loan Status</u>	<u>Total Number of Loans Serviced</u>	<u>Number of Loans in Status</u>		<u>Principal Amount</u>	<u>Percentage</u>
60-89 Days Past Due	24,101	538	\$	42,001,519	2.23%
90+ Days Past Due	24,101	1,296		105,118,036	5.38%
In Foreclosure	24,101	338		24,993,487	1.40%

Note: Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

ECONOMIC FACTORS

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, THDA uses the one-, three-, and five-year Constant Maturity Treasury (CMT) rates as established by the United States Treasury.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

The continuation of relatively low interest rates from a historic perspective increased the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Trent Ridley, Chief Financial Officer at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2015
(Expressed in Thousands)

	<u>2015</u>
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 275,510
Investments (Note 2)	42,603
Receivables:	
Accounts	29,597
Interest	13,556
First mortgage loans	53,465
Due from federal government	28,051
Prepaid expenses	10
Total current assets	<u>442,792</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (Note 2)	25,478
Investments (Note 2)	178,624
Investment interest receivable	1,573
Investments (Note 2)	35,056
First mortgage loans receivable	1,869,777
Second mortgage loans receivable	12,505
Allowance for forgivable second mortgages	(2,904)
Advance to local government	3,084
Capital assets:	
Furniture and equipment	1,561
Less accumulated depreciation	(1,049)
Total noncurrent assets	<u>2,123,705</u>
Total assets	<u>2,566,497</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on refundings	981
Deferred outflows related to pensions (Note 6)	1,672
Total deferred outflows of resources	<u>2,653</u>
LIABILITIES	
Current liabilities:	
Accounts payable	11,444
Accrued payroll and related liabilities	587
Compensated absences	585
Due to primary government	71
Interest payable	32,325
Escrow deposits	76
Prepayments on mortgage loans	1,165
Due to federal government	14,667
Bonds payable (Note 4)	130,455
Total current liabilities	<u>191,375</u>
Noncurrent liabilities:	
Bonds payable (Note 4)	1,848,715
Compensated absences	622
Net pension liability (Note 6)	2,964
Net OPEB obligation (Note 10)	1,516
Escrow deposits	2,477
Arbitrage rebate payable	2,803
Total noncurrent liabilities	<u>1,859,097</u>
Total liabilities	<u>2,050,472</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions (Note 6)	4,271
Total deferred inflows of resources	<u>4,271</u>
NET POSITION	
Net investment in capital assets	512
Restricted for single family bond programs (Note 5 and Note 8)	426,741
Restricted for grant programs (Note 5)	11,302
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,153
Unrestricted (Note 8)	72,699
Total net position	<u>\$ 514,407</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	<u>2015</u>
OPERATING REVENUES	
Mortgage interest income	\$ 96,999
Investment income:	
Interest	10,413
Net (decrease) in the fair value of investments	(3,878)
Federal grant administration fees	14,920
Fees and other income	<u>1,592</u>
Total operating revenues	<u>120,046</u>
OPERATING EXPENSES	
Salaries and benefits	15,147
Contractual services	6,478
Materials and supplies	657
Rentals and insurance	30
Other administrative expenses	476
Other program expenses	10,185
Interest expense	66,389
Mortgage service fees	7,076
Issuance costs	3,538
Depreciation	<u>345</u>
Total operating expenses	<u>110,321</u>
Operating income	<u>9,725</u>
NONOPERATING REVENUES (EXPENSES)	
Federal grants revenue	307,010
Other grants revenue	2
Federal grants expenses	(307,165)
Local grants expenses	<u>(15,300)</u>
Total nonoperating revenues (expenses)	<u>(15,453)</u>
Change in net position	<u>(5,728)</u>
Total net position, July 1	526,928
Cumulative effect of a change in accounting principle (Note 3)	(6,793)
Total net position, July 1, as restated	<u>520,135</u>
Total net position, June 30	<u>\$ 514,407</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	<u>2015</u>
Cash flows from operating activities:	
Receipts from customers	\$ 380,448
Receipts from federal government	14,708
Other miscellaneous receipts	1,592
Acquisition of mortgage loans	(250,764)
Payments to service mortgages	(5,914)
Payments to suppliers	(14,245)
Payments to or for employees	<u>(16,603)</u>
Net cash provided by operating activities	<u>109,222</u>
Cash flows from non-capital financing activities:	
Operating grants received	309,194
Proceeds from sale of bonds	477,824
Operating grants paid	(315,029)
Cost of issuance paid	(3,538)
Principal payments	(477,870)
Interest paid	<u>(75,380)</u>
Net cash used by non-capital financing activities	<u>(84,799)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(231)</u>
Net cash used by capital and related financing activities	<u>(231)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	124,834
Purchases of investments	(132,012)
Investment interest received	10,548
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	<u>23</u>
Net cash provided by investing activities	<u>3,393</u>
Net increase in cash and cash equivalents	27,585
Cash and cash equivalents, July 1	<u>273,403</u>
Cash and cash equivalents, June 30	\$ <u><u>300,988</u></u>

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>9,725</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	345
Pension expense	442
Changes in assets and liabilities:	
Decrease in accounts receivable	3,344
Decrease in mortgage interest receivable	321
(Increase) in deferred pension outflows	(1,672)
Decrease in mortgage loans receivable	33,435
(Increase) in due from federal government	(212)
(Decrease) in accounts payable	(1,546)
Increase in accrued payroll / compensated absences	75
(Decrease) in due to primary government	(1)
Increase in arbitrage rebate liability	1,574
Investment income (loss) included as operating revenue	(6,535)
Interest expense included as operating expense	66,389
Issuance cost included as operating expense	<u>3,538</u>
Total adjustments	<u>99,497</u>
Net cash provided by operating activities	\$ <u><u>109,222</u></u>
Noncash investing, capital, and financing activities:	
(Decrease) in fair value of investments	\$ <u>(4,933)</u>
Total noncash investing, capital, and financing activities	\$ <u><u>(4,933)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cashflows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

d. Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds and the Bond Reserve Funds.

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

f. Deferred Amount on Refundings and Bond Premiums and Discounts

1. Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.
2. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

g. Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

h. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

i. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

j. Mortgages

Mortgages are carried at their original amount less collected principal.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

k. Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding.

l. Allowance for Forgivable Second Mortgages

THDA has offered Down Payment Assistance (DPA) product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period.

m. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2015, the bank balance was \$17,206,841. All bank balances at June 30, 2015, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2015, \$16,820,732 was in the BNYM. Of this amount, \$16,570,732 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

b. Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

	June 30, 2015	
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$144,042,517	2.994
U.S. Treasury Coupon	77,246,460	2.305
U.S. Agency Discount	154,992,130	0.076
Total	\$376,281,107	1.6512

The portfolios include the following investments, stated at par or face value, which have fair values highly sensitive to interest rate changes. These investments are recorded at fair value in the statement of net position.

Variable Rate Bonds

The agency purchased \$2,350,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.75 of par on June 11, 2012, and mature on June 11, 2027. The fair value of these securities on June 30, 2015, is \$2,319,095, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0%

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

with a step-up option to 2.5% on June 11, 2016, to 3.0% on June 11, 2020; to 4.0% on June 11, 2022; to 6.0% on June 11, 2023; to 7.0% on June 11, 2024; to 8.0% on December 11, 2024; to 10.0% on June 11, 2025; to 12.0% on December 11, 2025; to 14.0% on June 11, 2026; and to 16.0% on December 11, 2026.

The agency purchased \$3,210,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on June 28, 2012, and mature on June 27, 2027. The fair value of these securities on June 30, 2015 is \$3,166,835, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 28, 2015; to 3.0% on June 28, 2018; to 4.0% on June 28, 2021; to 5.0% on June 28, 2023; and to 6.5% on June 28, 2025.

The agency purchased \$3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 100.12 of par on November 15, 2012 and mature on June 11, 2027. The fair value of these securities on June 30, 2015 is \$2,960,547, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 11, 2016; to 3.0% on June 11, 2020; to 4.0% on June 11, 2022; to 6.0% on June 11, 2023; to 7.0% on June 11, 2024; to 8.0% on December 11, 2024; to 10.0% on June 11, 2025; to 12.0% on December 11, 2025; to 14.0% on June 11, 2026; and to 16.0% on December 11, 2026.

The agency purchased \$4,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.80 of par on November 8, 2012. Although these securities were scheduled to mature on November 8, 2027, these bonds were called on May 8, 2015.

The agency purchased \$3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.45 of par on November 23, 2012, and mature on November 23, 2027. The fair value of these securities on June 30, 2015 is \$2,676,093, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.125% on November 23, 2017; to 2.25% on November 23, 2020; to 2.5% on November 23, 2023; to 3.0% on November 23, 2024; to 4.0% on May 23, 2025; to 6.0% on November 23, 2025; to 8.0% on May 23, 2026; to 11.0% on November 23, 2026; and to 14% on May 23, 2027. This investment is callable quarterly beginning May 23, 2013, and ending November 23, 2015.

The agency purchased \$2,400,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.65 of par on December 21, 2012 and mature on December 21, 2027. The fair value of these securities on June 30, 2015 is \$2,243,767, included in U.S. Agency Coupon in the tables above. This investment has a stated

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

coupon rate of 2.0% with a step-up option to 2.25% on December 21, 2017; to 2.5% on December 21, 2020; to 3.0% on December 21, 2022; to 4.0% on December 21, 2023; to 5.0% on December 21, 2024; to 6.0% on December 21, 2025; to 8.0% on June 21, 2026; to 10.0% on December 21, 2026; and to 12.0% on June 21, 2027. This investment is callable quarterly beginning June 21, 2013, and ending December 21, 2018.

The agency purchased \$2,750,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.90 of par on January 30, 2013 and mature on January 30, 2025. The fair value of these securities on June 30, 2015 is \$2,696,378, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.25% on January 30, 2018; to 2.5% on January 30, 2021; to 3.0% on January 30, 2022; to 5.0% on January 30, 2023; to 7.0% on July 30, 2023; and to 9.0% on January 30, 2024. This investment is callable quarterly beginning July 30, 2013, and ending October 30, 2016.

The agency purchased \$1,500,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.18 of par on November 7, 2012, and mature on June 28, 2027. The fair value of these securities on June 30, 2015 is \$1,487,250, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 4.0% on June 28, 2017; to 5.0% on June 28, 2024; and to 6.5% on June 28, 2026. This investment is callable quarterly beginning December 28, 2012, and ending December 28, 2015.

The agency purchased \$2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on August 27, 2012, and mature on August 27, 2027. The fair value of these securities on June 30, 2015 is \$1,987,664, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 1.5% with a step-up option to 2.5% on August 27, 2015; to 3.5% on August 27, 2018; to 4.5% on August 27, 2021; and to 5.5% on August 27, 2024. This investment is callable quarterly beginning August 27, 2012, and ending November 27, 2015.

The agency purchased \$5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 27, 2012, and mature on December 27, 2027. The fair value of these securities on June 30, 2015 is \$4,869,600, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 1.0% with a step-up option to 2.0% on June 27, 2013, and to 3.15% on December 27, 2013. This investment is callable quarterly beginning June 27, 2013, and ending December 27, 2016.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

The agency purchased \$3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 27, 2012, and mature on December 27, 2017. Although these securities were scheduled to mature on December 27, 2017, they were sold internally on November 20, 2014. The fair value of these securities on June 30, 2015 is \$2,998,458, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 0.6% with a step-up option to 0.7% on December 27, 2014; to 1.0% on December 27, 2015; to 1.5% on December 27, 2016; and to 3.0% on June 27, 2017. This investment is callable quarterly beginning December 27, 2013, and ending December 27, 2016.

The agency purchased \$3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 28, 2012, and mature on December 28, 2027. The fair value of these securities on June 30, 2015 is \$2,944,083, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 3.0% on December 28, 2017; to 4.0% on December 28, 2020; to 5.0% on December 28, 2024; and to 6.0% on December 28, 2025. This investment is callable quarterly beginning June 28, 2013, and ending December 28, 2017.

Credit Risk Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2015, are included in the schedule below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

June 30, 2015					
			Credit Quality Rating		
Investment Type	Fair Value	U.S. Treasury ¹	AA+	AA-2	Not Rated ²
U.S. Agency Coupon	\$144,042,517		\$126,719,822	\$4,555,652	\$12,767,043
U.S. Treasury Coupon	77,246,460	\$77,246,460			
U.S. Agency Discount	154,992,130				154,992,130
Total	\$376,281,107	\$77,246,460	\$126,719,822	\$4,555,652	\$167,759,173

¹This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

²This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

<u>Issuer</u>	June 30, 2015	
	<u>Fair Value</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$215,105,442	57.17
Federal National Mortgage Assoc.	\$53,208,579	14.14

NOTE 3. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year 2015, Tennessee Housing Development Agency implemented *GASB Statement 68, Accounting and Financial Reporting for Pensions* and *GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. GASB Statement 68 establishes standards for the measurement, recognition, and display of the net pension liability and related expenses, deferred inflows, note disclosures and required supplementary information. The implementation of GASB Statement 68 resulted in a cumulative adjustment to the beginning net position of \$(6,792,803). This cumulative adjustment does not include related deferred inflows and deferred outflows of resources.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2015</u>
HOMEOWNERSHIP PROGRAM BONDS				
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	27,395
2006-1	7/1/2007-1/1/2037	100,000	3.55 to 5.75	24,185
2006-2	7/1/2007-1/1/2037	100,000	3.90 to 5.75	22,945
2006-3	1/1/2008-7/1/2037	100,000	3.65 to 5.75	30,935
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	34,055
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	45,200
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	51,365
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	56,675
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	21,760
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	18,430
2009-1	1/1/2010-7/1/2029	50,000	0.75 to 5.00	26,500
2009-2	7/1/2010-7/1/2030	75,000	0.90 to 5.00	40,090
2010-1	1/1/2011-7/1/2025	120,700	0.35 to 4.50	62,585
2011-1	7/1/2012-7/1/2042	141,255	0.60 to 4.65	96,835
2012-1	1/1/2013-7/1/2042	133,110	0.80 to 4.50	103,190
2012-2	7/1/2013-7/1/2043	97,625	0.50 to 4.00	81,890
Total Homeownership Program Bonds		<u>\$1,687,690</u>		\$744,035
Plus: Unamortized Bond Premiums				6,883
Less: Unamortized Bond Discount				<u>(133)</u>
Net Homeownership Program Bonds				<u>\$750,785</u>

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2015</u>
HOUSING FINANCE PROGRAM BONDS				
2009-A	1/1/2011-1/1/2040	\$100,000	0.90 to 4.625	\$20,325
2010-A	1/1/2011-7/1/2041	160,000	0.60 to 5.00	34,305
2010-B	7/1/2011-7/1/2041	100,000	0.45 to 4.50	72,770
2011-A	7/1/2011-7/1/2041	100,000	0.45 to 4.50	24,175
2011-B	7/1/2012-7/1/2041	100,000	0.25 to 4.50	79,500
2011-C	7/1/2012-7/1/2041	100,000	0.40 to 4.30	79,525
2015-A	1/1/2016-7/1/2045	150,000	0.30 to 3.85	163,850
Total Housing Finance Program Bonds		<u>\$810,000</u>		\$474,450
Plus: Unamortized Bond Premiums				5,415
Net Housing Finance Program Bonds				<u>\$479,865</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2015</u>
RESIDENTIAL FINANCE PROGRAM BONDS				
2013-1	1/1/2014-7/1/2043	\$215,905	0.40 to 4.00	\$177,520
2013-2	7/1/2014-7/1/2043	121,300	0.45 to 4.65	109,615
2014-1	1/1/2015-7/1/2039	150,000	0.32 to 4.00	143,350
2014-2	7/1/2015-7-1-2045	150,000	0.25 to 4.00	150,000
2015-1	1/1/2016-7/1/2045	150,000	0.50 to 4.05	150,000
Total Residential Finance Program Bonds		<u>\$787,205</u>		\$730,485
Plus: Unamortized Bond Premiums				<u>18,035</u>
Net Residential Finance Program Bonds				<u>\$748,520</u>
Net Total All Issues				<u>\$1,979,170</u>

Housing Finance Program Bonds The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2015, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2016	\$130,210	\$66,327	\$196,537
2017	60,840	67,253	128,093
2018	62,240	65,731	127,971
2019	65,205	63,938	129,143
2020	67,515	61,921	129,436
2021 – 2025	371,950	272,510	644,460
2026 – 2030	344,895	202,692	547,587
2031 – 2035	357,140	132,603	489,743
2036 – 2040	327,036	63,012	390,048
2041 – 2045	161,939	13,973	175,912
Total	<u>\$1,948,970</u>	<u>\$1,009,960</u>	<u>\$2,958,930</u>

c. Redemption of Bonds and Notes

During the year ended June 30, 2015, bonds were retired at par before maturity in the Homeownership Program in the amount of \$80,555,000, in the Housing Finance Program in the amount of \$61,800,000, and in the Residential Finance Program in the amount of \$9,740,000. The respective carrying values of the bonds were \$82,200,775, \$62,080,414 and \$10,014,860. This resulted in revenue to the Homeownership Program of \$1,645,775, to the Housing Finance Program of \$280,414, and to the Residential Finance Program of \$274,860.

On May 29, 2014, the agency issued \$150,000,000 in Residential Finance Program Bonds, Issue 2014-1. On July 1, 2014, the agency used \$30,375,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$30,375,000 early redemption). The carrying amount of these bonds was \$30,375,000. The refunding increased the agency's debt service by \$2,086,324 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$603,145.

On November 20, 2014, the agency issued \$150,000,000 in Residential Finance Program Bonds, Issue 2014-2. On January 1, 2015, the agency used \$32,955,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

of \$32,955,000 early redemption). The carrying amount of these bonds was \$32,970,071. The refunding increased the agency's debt service by \$2,804,783 over the next 20.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$628,626.

On May 28, 2015, the agency issued \$163,850,000 in Housing Finance Program Bonds, Issue 2015-A. On June 1, 2015, the agency used \$153,040,000 of these bonds to refund bonds previously issued in the Housing Finance Program (this amount consists of \$153,040,000 early redemption). The carrying amount of these bonds was \$153,040,000. The refunding reduced the agency's debt service by \$12,922,997 over the next 24.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$2,296,133.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2015.

Long-term Liabilities (Thousands)					
	Beginning Balance July 1, 2014	Additions	Reductions	Ending Balance June 30, 2015	Amounts Due Within One Year
Bonds Payable	\$1,962,990	\$463,850	(\$477,870)	\$1,948,970	\$130,455
Plus: Unamortized Bond Premiums	21,477	13,975	(5,119)	30,333	-0-
Less: Unamortized Bond Discounts	(169)	-0-	36	(133)	-0-
Compensated Absences	1,210	80	(83)	1,207	585
Net Pension Liability	8,557	-0-	(5,593)	2,964	-0-
Escrow Deposits	2,220	1,336	(1,003)	2,553	76
Arbitrage Rebate Payable	1,229	1,574	(-0-)	2,803	-0-
Total	\$1,997,514	\$480,815	(\$489,632)	\$1,988,697	\$131,116

NOTE 5. RESTRICTED NET POSITION

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

NOTE 6. PENSION PLANS

a. Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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Benefits provided Title 8, Chapters 34-37, *Tennessee Code Annotated* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%

Plus:

Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Tennessee Housing Development Agency employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2015 to the Closed State and Higher Education Employee Pension Plan were \$1,652,466 which is 15.03 percent of

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability At June 30, 2015, Tennessee Housing Development Agency reported a liability of \$2,963,885 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension liability was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2014 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2014 measurement date, Tennessee Housing Development Agency's proportion of the central state liability was .424758 percent, representing the first time presentation of this proportion.

Pension expense For the year ended June 30, 2015, Tennessee Housing Development Agency recognized a pension expense of \$441,581.

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2015, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 639,392
Net difference between projected and actual earnings on pension plan investments	-	3,631,106
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2014	1,652,466	-
Total	\$ <u>1,652,466</u>	\$ <u>4,270,498</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of \$1,652,466 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2016	\$ (1,067,625)
2017	(1,067,625)
2018	(1,067,625)
2019	(1,067,623)
2020	-
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions The total pension liability as of the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	\$ 10,165,784	\$ 2,963,885	\$ (3,098,235)

Pension plan fiduciary net position Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2015, Tennessee Housing Development Agency reported a payable of \$61,392 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2015.

b. State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014 and covers employees hired before July 1, 2014. Employees hired after June 30, 2014 are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37.

Benefits provided Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2015 to the State and Higher Education Employee Retirement Plan were \$19,267 which is 3.82 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

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Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liabilities Since the measurement date is June 30, 2014, which is prior to the July 1, 2014 inception of the State and Higher Education Employee Retirement Plan, there is not a net pension liability to report at June 30, 2015.

Pension expense Since the measurement date is June 30, 2014, Tennessee Housing Development Agency (THDA) did not recognize a pension expense at June 30, 2015.

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2015, Tennessee Housing Development Agency reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Tennessee Housing Development Agency's contributions subsequent to the measurement date of June 30, 2014	\$ 19,267	\$ (not applicable)

Tennessee Housing Development Agency's employer contributions of \$19,267 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ended June 30, 2016.

Payable to the Pension Plan

At June 30, 2015, THDA reported a payable of \$6,568 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

NOTE 7. DEFERRED COMPENSATION PLANS

The Tennessee Housing Development Agency, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to IRC, Section 457 and the other pursuant to IRC, Section 401(k). The plans are outsourced to third party vendors and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The Tennessee Housing Development Agency provides up to a \$50 monthly employer match for

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employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014 voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of *Public Acts of 2013*, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The Tennessee Housing Development Agency recognized a pension expense of \$118,794 for employer contributions.

NOTE 8. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

NOTE 9. INSURANCE-RELATED ACTIVITIES

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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b. Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the RMF. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of \$10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$10 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2013, is presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2015, the Risk Management Fund held \$127.9 million in cash designated for payment of claims. At June 30, 2015, the scheduled coverage for the agency was \$1.561 million for furniture and equipment.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans - the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* Section 8-27-101. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation - The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including the Tennessee Housing Development Agency (see Note 11). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy - The premium requirements of plan members are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Administrative costs of the plan are allocated to plan participants. Retired employees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25.

THDA Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan
(Thousands)

June 30, 2015

Annual Required Contribution (ARC)	\$356
Interest on the Net OPEB Obligation	56
Adjustment to the ARC	(55)
Annual OPEB cost	357
Amount of contribution	(254)
Increase in Net OPEB Obligation	103
Net OPEB Obligation-beginning of year	1,413
Net OPEB Obligation-end of year	\$1,516

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost (Thousands)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation At Year End (Thousands)</u>
6/30/2015	State Employee Group Plan	\$ 357	71%	\$ 1,516
6/30/2014	State Employee Group Plan	\$ 346	68%	\$ 1,413
6/30/2013	State Employee Group Plan	\$ 359	60%	\$ 1,303

Funded Status and Funding Progress The funded status of THDA's portion of the state Employee Group Plan as of July 1, 2013, was as follows (thousands):

Actuarial valuation date	7/01/2013
Actuarial accrued liability (AAL)	\$ 2,964
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	\$ 2,964
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 9,841
UAAL as a percentage of covered payroll	30%

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2013, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreases to 7% in fiscal year 2015, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2044. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

NOTE 11. ON-BEHALF PAYMENTS

During the year ended June 30, 2015, the State of Tennessee made payments of \$5,525 on behalf of THDA for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

NOTE 12. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund;

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

(ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

NOTE 13. SUBSEQUENT EVENTS

- a.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

July 1, 2015	Homeownership Program	\$40,865,000
	Housing Finance Program	10,490,000
	Residential Finance Program	<u>10,825,000</u>
	Total	<u>\$62,180,000</u>

- b.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

August 1, 2015	Homeownership Program	\$12,535,000
	Housing Finance Program	4,855,000
	Residential Finance Program	<u>7,010,000</u>
	Total	<u>\$24,400,000</u>

- c.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

September 1, 2015	Homeownership Program	\$13,760,000
	Housing Finance Program	4,880,000
	Residential Finance Program	<u>5,845,000</u>
	Total	<u>\$24,485,000</u>

- d.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

October 1, 2015	Homeownership Program	\$13,155,000
	Housing Finance Program	4,595,000
	Residential Finance Program	<u>5,480,000</u>
	Total	<u>\$23,230,000</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

- e. Homeownership Program Bonds, Issue 2015-2, were sold on October 15, 2015. The bond maturities are as follow:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
Series	Maturity Range	Amount	Rate
			(Percent)
2015-2	7/1/2016-1/1/2046	\$175,000	0.400 to 4.000

- f. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

November 1, 2015	Homeownership Program	\$11,975,000
	Housing Finance Program	6,410,000
	Residential Finance Program	<u>4,835,000</u>
	Total	<u>\$23,220,000</u>

- g. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

December 1, 2015	Homeownership Program	\$15,680,000
	Housing Finance Program	6,365,000
	Residential Finance Program	<u>5,045,000</u>
	Total	<u>\$27,090,000</u>

NOTE 14. EVENTS (UNAUDITED) SUBSEQUENT TO THE DATE OF THE INDEPENDENT AUDITOR'S REPORT

- a. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

January 1, 2016	Homeownership Program	\$56,420,000
	Housing Finance Program	16,800,000
	Residential Finance Program	<u>9,065,000</u>
	Total	<u>\$82,285,000</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

- b. Residential Finance Program bonds, Issue 2016-1, were authorized by the Board of Directors on January 26, 2016, not to exceed \$150,000,000. The sale of the Bonds will occur no later than June 30, 2016.

- c. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

February 1, 2016	Homeownership Program	\$9,625,000
	Housing Finance Program	5,915,000
	Residential Finance Program	<u>4,010,000</u>
	Total	<u>\$19,550,000</u>

- d. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

March 1, 2016	Homeownership Program	\$10,790,000
	Housing Finance Program	6,455,000
	Residential Finance Program	<u>6,880,000</u>
	Total	<u>\$24,125,000</u>

- e. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

April 1, 2016	Homeownership Program	\$9,790,000
	Housing Finance Program	7,135,000
	Residential Finance Program	<u>6,230,000</u>
	Total	<u>\$23,155,000</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYEE BENEFITS SCHEDULE OF FUNDING PROGRESS
(Expressed in Thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2010	State Employee Group Plan	\$ -0-	\$ 3,316	\$ 3,316	0%	\$ 8,640	38%
7/1/2011	State Employee Group Plan	\$ -0-	\$ 2,919	\$ 2,919	0%	\$ 9,818	30%
7/1/2013	State Employee Group Plan	\$ -0-	\$ 2,964	\$ 2,964	0%	\$ 9,841	30%

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	<u>2014</u>
Tennessee Housing Development Agency's proportion of the net pension liability	.424758%
Tennessee Housing Development Agency's proportionate share of the net pension liability	\$ 2,964
Tennessee Housing Development Agency's covered-employee payroll	\$ 11,601
Tennessee Housing Development Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	25.55%
Plan fiduciary net position as a percentage of the total pension liability	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	<u>2014</u>	<u>2015</u>
Contractually Required Contribution	\$ 1,744	\$ 1,652
Contribution in relation to the contractually required contribution	<u>1,744</u>	<u>1,652</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Tennessee Housing Development Agency's covered-employee payroll		
\$	11,601	\$ 10,994
Contribution as a percentage of Tennessee Housing Development Agency's covered-employee payroll	15.03%	15.03%

This is a 10-year schedule. However, the information in the schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
STATE AND HIGHER EDUCATION EMPLOYEE RETIREMENT PLAN
(Expressed in Thousands)

		<u>2015</u>
Contractually Required Contributions	\$	19
Contributions in relation to the contractually required contribution		<u>(19)</u>
Contribution deficiency (excess)	\$	<u><u>-</u></u>
Tennessee Housing Development Agency's covered-employee payroll	\$	498
Contributions as a percentage of Tennessee Housing Development Agency's covered-employee payroll		3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2015
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 5,915	\$ 13,428	\$ 97,295	\$ 39,330	\$ 119,542	\$ 275,510
Investments	-	-	-	-	42,603	42,603
Receivables:						
Accounts	3	444	15,337	10,259	3,554	29,597
Interest	21	58	6,240	3,594	3,643	13,556
First mortgage loans	6	164	25,100	9,874	18,321	53,465
Due from federal government	28,051	-	-	-	-	28,051
Due from other funds	3,488	-	-	-	-	3,488
Prepaid expenses	10	-	-	-	-	10
Total current assets	37,494	14,094	143,972	63,057	187,663	446,280
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	14,667	-	9,321	1,068	422	25,478
Investments	-	-	135,899	19,837	22,888	178,624
Investment Interest receivable	-	-	1,401	104	68	1,573
Investments	-	4,684	196	1,866	28,310	35,056
First mortgage loans receivable	867	48,246	760,561	436,523	623,580	1,869,777
Second mortgage loans receivable	-	-	12,505	-	-	12,505
Allowance for forgivable second mortgages	-	-	(2,904)	-	-	(2,904)
Advance to local government	3,084	-	-	-	-	3,084
Capital assets:						
Furniture and equipment	1,561	-	-	-	-	1,561
Less accumulated depreciation	(1,049)	-	-	-	-	(1,049)
Total noncurrent assets	19,130	52,930	916,979	459,398	675,268	2,123,705
Total assets	56,624	67,024	1,060,951	522,455	862,931	2,569,985
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	759	981
Deferred outflows related to pensions	1,672	-	-	-	-	1,672
Total deferred outflows of resources	1,672	-	222	-	759	2,653
LIABILITIES						
Current liabilities:						
Accounts payable	11,359	2	35	21	27	11,444
Accrued payroll and related liabilities	587	-	-	-	-	587
Compensated absences	585	-	-	-	-	585
Due to primary government	71	-	-	-	-	71
Interest payable	-	-	15,964	5,807	10,554	32,325
Escrow deposits	-	76	-	-	-	76
Prepayments on mortgage loans	-	-	507	235	423	1,165
Due to federal government	14,667	-	-	-	-	14,667
Due to other funds	-	-	2,065	-	1,423	3,488
Bonds payable	-	-	77,670	23,890	28,895	130,455
Total current liabilities	27,269	78	96,241	29,953	41,322	194,863
Noncurrent liabilities:						
Bonds payable	-	-	673,115	455,975	719,625	1,848,715
Compensated absences	622	-	-	-	-	622
Net pension liability	2,964	-	-	-	-	2,964
Net OPEB obligation	1,516	-	-	-	-	1,516
Escrow deposits	294	495	-	-	1,688	2,477
Arbitrage rebate payable	-	-	2,803	-	-	2,803
Total noncurrent liabilities	5,396	495	675,918	455,975	721,313	1,859,097
Total liabilities	32,665	573	772,159	485,928	762,635	2,053,960
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	4,271	-	-	-	-	4,271
Total deferred inflows of resources	4,271	-	-	-	-	4,271
NET POSITION						
Net investment in capital assets	512	-	-	-	-	512
Restricted for single family bond programs	-	145	289,014	36,527	101,055	426,741
Restricted for grant programs	-	11,302	-	-	-	11,302
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Unrestricted	17,695	55,004	-	-	-	72,699
Total net position	\$ 21,360	\$ 66,451	\$ 289,014	\$ 36,527	\$ 101,055	\$ 514,407

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ 36	\$ 119	\$ 47,964	\$ 23,487	\$ 25,393	\$ 96,999
Investment income:						
Interest	29	27	7,827	664	1,866	10,413
Net increase (decrease) in the fair value of investments	-	(1)	(3,550)	225	(552)	(3,878)
Federal grant administration fees	14,920	-	-	-	-	14,920
Fees and other income	1,431	1	-	-	160	1,592
Total operating revenues	16,416	146	52,241	24,376	26,867	120,046
OPERATING EXPENSES						
Salaries and benefits	15,147	-	-	-	-	15,147
Contractual services	6,475	-	1	2	-	6,478
Materials and supplies	657	-	-	-	-	657
Rentals and insurance	30	-	-	-	-	30
Other administrative expenses	476	-	-	-	-	476
Other program expenses	1,931	108	6,596	549	1,001	10,185
Interest expense	-	-	32,354	16,977	17,058	66,389
Mortgage service fees	-	87	3,225	1,716	2,048	7,076
Issuance costs	-	-	-	1,195	2,343	3,538
Depreciation	345	-	-	-	-	345
Total operating expenses	25,061	195	42,176	20,439	22,450	110,321
Operating income (loss)	(8,645)	(49)	10,065	3,937	4,417	9,725
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	307,010	-	-	-	-	307,010
Other grant revenue	-	-	2	-	-	2
Federal grants expenses	(307,165)	-	-	-	-	(307,165)
Local grants expenses	(15,100)	(200)	-	-	-	(15,300)
Total nonoperating revenues (expenses)	(15,255)	(200)	2	-	-	(15,453)
Income (loss) before transfers	(23,900)	(249)	10,067	3,937	4,417	(5,728)
Transfers (to) other funds	-	-	(3,592)	(13,036)	(9,069)	(25,697)
Transfers from other funds	16,147	9,550	-	-	-	25,697
Change in net position	(7,753)	9,301	6,475	(9,099)	(4,652)	(5,728)
Total net position, July 1	35,906	57,150	282,539	45,626	105,707	526,928
Cumulative effect of a change in accounting principle	(6,793)	-	-	-	-	(6,793)
Total net position, July 1, as restated	29,113	57,150	282,539	45,626	105,707	520,135
Total net position, June 30	\$ 21,360	\$ 66,451	\$ 289,014	\$ 36,527	\$ 101,055	\$ 514,407

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ 360	\$ 3,809	\$ 182,632	\$ 78,039	\$ 115,608	\$ 380,448
Receipts from federal government	14,708	-	-	-	-	14,708
Receipts from other funds	3,634	20	-	-	1,423	5,077
Other miscellaneous receipts	1,431	1	-	-	160	1,592
Acquisition of mortgage loans	-	(8,259)	(9,052)	(1,716)	(231,737)	(250,764)
Payments to service mortgages	-	(87)	(3,225)	(554)	(2,048)	(5,914)
Payments to suppliers	(10,755)	(110)	(2,128)	-	(1,252)	(14,245)
Payments to other funds	-	-	(5,077)	-	-	(5,077)
Payments to or for employees	(16,603)	-	-	-	-	(16,603)
Net cash provided (used) by operating activities	(7,225)	(4,626)	163,150	75,769	(117,846)	109,222
Cash flows from non-capital financing activities:						
Operating grants received	309,192	-	2	-	-	309,194
Transfers in (out)	16,147	9,475	57,588	(13,036)	(70,174)	-
Proceeds from sale of bonds	-	-	-	168,316	309,508	477,824
Operating grants paid	(314,829)	(200)	-	-	-	(315,029)
Cost of issuance paid	-	-	-	(1,195)	(2,343)	(3,538)
Principal payments	-	-	(221,280)	(215,875)	(40,715)	(477,870)
Interest paid	-	-	(40,474)	(20,913)	(13,993)	(75,380)
Net cash provided (used) by non-capital financing activities	10,510	9,275	(204,164)	(82,703)	182,283	(84,799)
Cash flows from capital and related financing activities:						
Purchases of capital assets	(231)	-	-	-	-	(231)
Net cash used by capital and related financing activities	(231)	-	-	-	-	(231)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	3,055	86,016	28,137	59,270	176,478
Purchases of investments	-	(5,036)	(54,090)	(17,044)	(107,486)	(183,656)
Investment interest received	29	178	7,932	680	1,729	10,548
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	7	3	13	23
Net cash provided (used) by investing activities	29	(1,803)	39,865	11,776	(46,474)	3,393
Net increase (decrease) in cash and cash equivalents	3,083	2,846	(1,149)	4,842	17,963	27,585
Cash and cash equivalents, July 1	17,499	10,582	107,765	35,556	102,001	273,403
Cash and cash equivalents, June 30	\$ 20,582	\$ 13,428	\$ 106,616	\$ 40,398	\$ 119,964	\$ 300,988

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (8,645)	\$ (49)	\$ 10,065	\$ 3,937	\$ 4,417	\$ 9,725
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	345	-	-	-	-	345
Pension expense	442	-	-	-	-	442
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	-	(53)	5,997	(1,895)	(705)	3,344
(Increase) decrease in mortgage interest receivable	8	45	1,486	239	(1,457)	321
(Increase) in deferred pension outflows	(1,672)	-	-	-	-	(1,672)
(Increase) decrease in mortgage loans receivable	294	(4,501)	121,214	56,273	(139,845)	33,435
Decrease in due from federal government	(212)	-	-	-	-	(212)
Decrease in interfund receivables	3,634	20	-	-	1,423	5,077
(Decrease) in interfund payables	-	-	(5,077)	-	-	(5,077)
Increase (decrease) in accounts payable	(1,464)	(62)	(186)	(68)	234	(1,546)
Increase in accrued payroll / compensated absences	75	-	-	-	-	75
(Decrease) in due to primary government	(1)	-	-	-	-	(1)
Increase in arbitrage rebate liability	-	-	1,574	-	-	1,574
Investment income included as operating revenue	(29)	(26)	(4,277)	(889)	(1,314)	(6,535)
Interest expense included as operating expense	-	-	32,354	16,977	17,058	66,389
Issuance cost included as operating expense	-	-	-	1,195	2,343	3,538
Total adjustments	<u>1,420</u>	<u>(4,577)</u>	<u>153,085</u>	<u>71,832</u>	<u>(122,263)</u>	<u>99,497</u>
Net cash provided (used) by operating activities	\$ <u>(7,225)</u>	\$ <u>(4,626)</u>	\$ <u>163,150</u>	\$ <u>75,769</u>	\$ <u>(117,846)</u>	\$ <u>109,222</u>
Noncash investing, capital, and financing activities:						
Increase (decrease) in fair value of investments	\$ -	\$ 7	\$ (4,298)	\$ (179)	\$ (463)	\$ (4,933)
Total noncash investing, capital, and financing activities	\$ <u>-</u>	\$ <u>7</u>	\$ <u>(4,298)</u>	\$ <u>(179)</u>	\$ <u>(463)</u>	\$ <u>(4,933)</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION - MORTGAGE FINANCE PROGRAM
JUNE 30, 2015
(Expressed in Thousands)

	General Fund	Escrow Fund**	Mortgage Finance Program Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 13,275	\$ 153	\$ 13,428
Receivables:			
Accounts	439	5	444
Interest	57	1	58
First mortgage loans	164	-	164
Total current assets	13,935	159	14,094
Noncurrent assets:			
Restricted assets:			
Investments	4,226	458	4,684
First mortgage loans receivable	48,246	-	48,246
Total noncurrent assets	52,472	458	52,930
Total assets	66,407	617	67,024
LIABILITIES			
Current liabilities:			
Accounts payable	2	-	2
Escrow deposits	-	76	76
Total current liabilities	2	76	78
Noncurrent liabilities:			
Escrow deposits	99	396	495
Total noncurrent liabilities	99	396	495
Total liabilities	101	472	573
NET POSITION			
Restricted for single family bond programs	-	145	145
Restricted for grant programs	11,302	-	11,302
Unrestricted	55,004	-	55,004
Total net position	\$ 66,306	\$ 145	\$ 66,451

** The Escrow Funds can only be used for escrow payments.

***UNAUDITED FINANCIAL
INFORMATION***

December 31, 2015

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

	December 31, 2015					
	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2015
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ 7,152	\$ 64,458	\$ 47,261	\$ 86,210	\$ 205,081
Investments	-	2,721	44,875	-	54,069	101,665
Receivables:						
Accounts	65	264	12,980	8,210	6,236	27,755
Interest	17	74	5,329	3,452	4,406	13,278
First mortgage loans	6	162	22,387	9,298	21,720	53,573
Due from federal government	20,620	-	-	-	-	20,620
Due from other funds	3,473	-	-	-	-	3,473
Prepaid Expenses	1	-	-	-	-	1
Total current assets	24,182	10,373	150,029	68,221	172,641	425,446
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	10,454	-	16,120	1,150	5,298	33,022
Investments	-	-	125,087	20,060	23,085	168,232
Investment interest receivable	-	-	1,411	112	91	1,614
Investments	-	5,610	-	1,191	35,692	42,493
First mortgage loans receivable	724	47,607	640,453	407,331	765,715	1,861,830
Second mortgage loans receivable	-	-	17,950	-	-	17,950
Allowance for forgivable second mortgages	-	-	(5,150)	-	-	(5,150)
Advance to local government	3,094	-	-	-	-	3,094
Capital assets:						
Furniture and equipment	1,561	-	-	-	-	1,561
Less accumulated depreciation	(1,049)	-	-	-	-	(1,049)
Total noncurrent assets	14,784	53,217	795,871	429,844	829,881	2,123,597
Total assets	38,966	63,590	945,900	498,065	1,002,522	2,549,043
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	759	981
Deferred outflows related to pensions	1,672	-	-	-	-	1,672
Total deferred outflows of resources	1,672	-	222	-	759	2,653
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 1	\$ 2	\$ -	\$ -	\$ -	\$ 3
Compensated absences	569	-	-	-	-	569
Due to federal government	9,749	-	-	-	-	9,749
Due to primary government	2,873	-	-	-	-	2,873
Interest payable	-	-	13,579	7,881	12,780	34,240
Escrow deposits	-	75	-	-	-	75
Prepayments on mortgage loans	-	1	466	234	593	1,294
Due to other funds	-	-	2,065	-	1,408	3,473
Bonds payable	-	-	78,195	27,150	23,280	128,625
Total current liabilities	13,192	78	94,305	35,265	38,061	180,901
Noncurrent liabilities:						
Bonds payable	-	-	563,386	414,856	864,106	1,842,348
Compensated absences	546	-	-	-	-	546
Net pension liability	2,964	-	-	-	-	2,964
Net OPEB obligation	1,516	-	-	-	-	1,516
Escrow deposits	231	493	-	-	2,791	3,515
Arbitrage rebate payable	-	-	2,803	-	-	2,803
Total noncurrent liabilities	5,257	493	566,189	414,856	866,897	1,853,692
Total liabilities	18,449	571	660,494	450,121	904,958	2,034,593
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	4,271	-	-	-	-	4,271
Total deferred inflows of resources	4,271	-	-	-	-	4,271
NET POSITION						
Net investment in capital assets	512	-	-	-	-	512
Restricted for single family bond programs	-	144	285,628	47,944	98,323	432,039
Restricted for grant programs	-	12,440	-	-	-	12,440
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Unrestricted	14,253	50,435	-	-	-	64,688
Total net position	\$ 17,918	\$ 63,019	\$ 285,628	\$ 47,944	\$ 98,323	\$ 512,832

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Six Months Ended December 31, 2015

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2015
OPERATING REVENUES						
Mortgage interest income	\$ 27	\$ 59	\$ 18,806	\$ 10,254	\$ 17,481	\$ 46,627
Investment income:						
Interest	-	91	3,757	340	1,031	5,219
Net increase (decrease) in the fair value of investments	-	(88)	(2,814)	(52)	(269)	(3,223)
Federal grant administration fees	6,646	-	-	-	-	6,646
Fees and other income	2,063	-	-	-	645	2,708
Total operating revenues	8,736	62	19,749	10,542	18,888	57,977
OPERATING EXPENSES						
Salaries and benefits	8,119	-	-	-	-	8,119
Contractual services	2,863	-	-	-	12	2,875
Materials and supplies	535	-	-	-	-	535
Rentals and insurance	13	-	-	-	-	13
Other administrative expenses	254	-	-	-	-	254
Other program expenses	164	58	3,422	110	643	4,397
Interest expense	-	-	13,057	7,353	11,506	31,916
Mortgage service fees	-	45	1,276	742	1,379	3,442
Issuance costs	-	-	-	-	1,303	1,303
Total operating expenses	11,948	103	17,755	8,205	14,843	52,854
Operating income (loss)	(3,212)	(41)	1,994	2,337	4,045	5,123
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	128,089	-	-	-	-	128,089
Other grant revenue	-	7	-	-	-	7
Federal grants expenses	(128,085)	-	-	-	-	(128,085)
Local grants expenses	(6,709)	-	-	-	-	(6,709)
Total nonoperating revenues (expenses)	(6,705)	7	-	-	-	(6,698)
Income (loss) before transfers	(9,917)	(34)	1,994	2,337	4,045	(1,575)
Transfers (to) other funds	-	(3,398)	(5,380)	-	(6,777)	(15,555)
Transfers from other funds	6,475	-	-	9,080	-	15,555
Change in net position	(3,442)	(3,432)	(3,386)	11,417	(2,732)	(1,575)
Total net position, July 1	21,360	66,451	289,014	36,527	101,055	514,407
Total net position, End of period	\$ 17,918	\$ 63,019	\$ 285,628	\$ 47,944	\$ 98,323	\$ 512,832

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Six Months Ended December 31, 2015

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2015
Cash flows from operating activities:						
Receipts from customers	\$ 39	\$ 1,792	\$ 105,176	\$ 42,211	\$ 69,087	\$ 218,305
Receipts from federal government	6,435	-	-	-	-	6,435
Receipts from other funds	15	-	-	-	-	15
Other miscellaneous receipts	2,063	-	-	-	645	2,708
Acquisition of mortgage loans	-	(915)	(12,182)	-	(152,790)	(165,887)
Payments to service mortgages	-	(45)	(1,276)	(742)	(1,379)	(3,442)
Payments to suppliers	(3,219)	(58)	(1,211)	(131)	(682)	(5,301)
Payments to other funds	-	-	-	-	(15)	(15)
Payments to or for employees	(8,930)	-	-	-	-	(8,930)
Net cash provided (used) by operating activities	<u>(3,597)</u>	<u>774</u>	<u>90,507</u>	<u>41,338</u>	<u>(85,134)</u>	<u>43,888</u>
Cash flows from non-capital financing activities:						
Operating grants received	130,813	7	-	-	-	130,820
Transfers in (out)	6,475	(3,398)	41,035	9,080	(53,192)	-
Proceeds from sale of bonds	-	-	-	-	179,070	179,070
Operating grants paid	(143,819)	-	-	-	-	(143,819)
Cost of issuance paid	-	-	-	-	(1,303)	(1,303)
Principal payments	-	-	(107,970)	(37,595)	(39,040)	(184,605)
Interest paid	-	-	(16,677)	(5,543)	(10,444)	(32,664)
Net cash provided (used) by non-capital financing activities	<u>(6,531)</u>	<u>(3,391)</u>	<u>(83,612)</u>	<u>(34,058)</u>	<u>75,091</u>	<u>(52,501)</u>
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	11,512	52,860	9,925	94,787	169,084
Purchases of investments	-	(15,247)	(89,547)	(9,531)	(114,112)	(228,437)
Investment interest received	-	76	3,747	333	900	5,056
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	7	6	12	25
Net cash provided (used) by investing activities	<u>-</u>	<u>(3,659)</u>	<u>(32,933)</u>	<u>733</u>	<u>(18,413)</u>	<u>(54,272)</u>
Net increase (decrease) in cash and cash equivalents	(10,128)	(6,276)	(26,038)	8,013	(28,456)	(62,885)
Cash and cash equivalents, July 1	<u>20,582</u>	<u>13,428</u>	<u>106,616</u>	<u>40,398</u>	<u>119,964</u>	<u>300,988</u>
Cash and cash equivalents, End of period	<u>\$ 10,454</u>	<u>\$ 7,152</u>	<u>\$ 80,578</u>	<u>\$ 48,411</u>	<u>\$ 91,508</u>	<u>\$ 238,103</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

	For the Six Months Ended December 31, 2015					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Total 12/31/2015
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ <u>(3,212)</u>	\$ <u>(41)</u>	\$ <u>1,994</u>	\$ <u>2,337</u>	\$ <u>4,045</u>	\$ <u>5,123</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(62)	180	2,357	2,049	(2,682)	1,842
(Increase) decrease in mortgage interest receivable	4	(1)	911	141	(656)	399
(Increase) decrease in mortgage loans receivable	133	641	73,207	29,768	(99,119)	4,630
(Increase) in due from federal government	(211)	-	-	-	-	(211)
Decrease in interfund receivables	15	-	-	-	-	15
(Decrease) in interfund payables	-	-	-	-	(15)	(15)
Increase (decrease) in accounts payable	(2,387)	(2)	(76)	(22)	1,246	(1,241)
(Decrease) in accrued payroll / compensated absences	(679)	-	-	-	-	(679)
(Decrease) in due to primary government	2,802	-	-	-	-	2,802
Investment income included as operating revenue	-	(3)	(943)	(288)	(762)	(1,996)
Interest expense included as operating expense	-	-	13,057	7,353	11,506	31,916
Issuance cost included as operating expense	-	-	-	-	1,303	1,303
Total adjustments	<u>(385)</u>	<u>815</u>	<u>88,513</u>	<u>39,001</u>	<u>(89,179)</u>	<u>38,765</u>
Net cash provided (used) by operating activities	\$ <u><u>(3,597)</u></u>	\$ <u><u>774</u></u>	\$ <u><u>90,507</u></u>	\$ <u><u>41,338</u></u>	\$ <u><u>(85,134)</u></u>	\$ <u><u>43,888</u></u>
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	<u>-</u>	<u>(55)</u>	<u>(2,570)</u>	<u>(61)</u>	<u>(531)</u>	<u>(3,217)</u>
Total noncash investing, capital, and financing activities	\$ <u><u>-</u></u>	\$ <u><u>(55)</u></u>	\$ <u><u>(2,570)</u></u>	\$ <u><u>(61)</u></u>	\$ <u><u>(531)</u></u>	\$ <u><u>(3,217)</u></u>

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

FANNIE MAE MORTGAGE-BACKED SECURITIES

General

The following summary of the Fannie Mae MBS Program (as defined below), the Fannie Mae Securities, Fannie Mae's mortgage purchase and servicing standards and other documents referred to herein does not purport to be complete and is qualified in its entirety by reference to Fannie Mae's Prospectus, as defined below, the Fannie Mae Single Family Selling and Servicing Guides and the other documents referred to herein.

Fannie Mae is subject to the supervision and regulation of the Federal Housing Finance Agency to the extent provided in the Housing and Economic Recovery Act of 2008. The FHFA has placed Fannie Mae into conservatorship.

Information on Fannie Mae and its financial condition is contained in Fannie Mae's most current annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K that are filed with the Securities and Exchange Commission (the "SEC"). Fannie Mae files reports, proxy statements and other information with the SEC. Materials that it files with the SEC are also available from the SEC's website, "www.sec.gov." In addition, these materials may be inspected, without charge, and copies may be obtained at prescribed rates, at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. Investors may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The periodic reports filed by Fannie Mae with the SEC are also available on Fannie Mae's website at <http://www.fanniemae.com/ir/sec> or from Fannie Mae at the Office of Investor Relations at 202-752-7115. The documents and websites referred to above are not a part of this Official Statement, and neither THDA nor any of the Underwriters takes any responsibility for information contained in any of these documents or websites.

Fannie Mae

Fannie Mae is a government-sponsored enterprise that was chartered by the U.S. Congress in 1938, organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C. 1716 et seq. (the "Charter"). Fannie Mae has a public mission to support liquidity and stability in the secondary mortgage market, where existing mortgage loans are purchased and sold. Fannie Mae securitizes mortgage loans originated by lenders in the primary mortgage market into mortgage-backed securities ("Fannie Mae MBS"), which can then be bought and sold in the secondary mortgage market. Fannie Mae also participates in the secondary mortgage market by purchasing mortgage loans (often referred to as "whole loans") and mortgage-related securities, including Fannie Mae MBS, for Fannie Mae's mortgage portfolio. In addition, Fannie Mae makes other investments to increase the supply of affordable housing, however, pursuant to the Charter, Fannie Mae may not lend money directly to consumers in the primary mortgage market. *Although Fannie Mae is a corporation chartered by the U.S. Congress, the conservator of Fannie Mae is a U.S. Government agency, and the United States Department of Treasury ("Treasury") owns senior preferred stock and a warrant to purchase common stock of Fannie Mae, the U.S. Government (including Treasury) does not guarantee, directly or indirectly, the securities or other obligations of Fannie Mae.*

On September 6, 2008, the Director of the Federal Housing Finance Agency ("FHFA"), the safety, soundness and mission regulator of Fannie Mae, placed Fannie Mae into conservatorship and appointed FHFA as the conservator. As the conservator, FHFA succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any stockholder, officer or director of Fannie Mae with respect to Fannie Mae and the assets of Fannie Mae. As such, FHFA has the authority to conduct all business of Fannie Mae. Pursuant to the Housing and Economic Recovery Act of 2008, FHFA, as conservator, may take "such action as may be necessary to put the regulated entity in a sound and solvent condition." Fannie Mae has no control over FHFA's actions or the actions it may direct Fannie Mae to take. The conservatorship has no specified termination date; Fannie Mae does not know when or how the conservatorship will be terminated. In addition, the Board of Directors of Fannie Mae does not have any fiduciary duties to any person or entity except to FHFA, as conservator. Accordingly, the Board of Directors is not obligated to consider the interests of Fannie Mae or the stockholders of Fannie Mae unless specifically directed to do so by FHFA, as conservator. The United States Department of Housing and Urban Development, however, remains Fannie Mae's regulator with respect to fair lending matters.

Mortgage-Backed Security Program

Fannie Mae has implemented a mortgage-backed securities program pursuant to which Fannie Mae issues securities backed by pools of mortgage loans (the "MBS Program"). **The obligations of Fannie Mae, including its obligations under the Fannie Mae Securities, are obligations solely of Fannie Mae and are not guaranteed by the United States Government (including Treasury) and do not constitute a debt or obligation of the United States or any agency or instrumentality thereof, including Treasury and FHFA, other than Fannie Mae.**

The terms of the MBS Program are governed by the Fannie Mae Selling and Servicing Guides (the "Fannie Mae Guides"), as modified by the Pool Purchase Contract, and, in the case of mortgage loans such as the Program Loans exchanged with Fannie Mae, a Trust Indenture dated as of November 1, 1981, as amended (the "Trust Indenture"), and a supplement thereto to be issued by Fannie Mae in connection with each pool. The MBS Program is further described in a prospectus issued by Fannie Mae (the "Fannie Mae Prospectus"). The Fannie Mae Prospectus is updated from time to time.

Copies of the Fannie Mae Prospectus and Fannie Mae's most recent annual and quarterly reports and proxy statements are available without charge from Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016, Attention: Vice President for Investor Relations, (telephone: (202) 752-6724).

Pool Purchase Contract

It is expected that Fannie Mae and the Master Servicer will enter into a Pool Purchase Contract, pursuant to which the Master Servicer will be permitted to deliver, and Fannie Mae will agree to purchase conventional loans insured by a private mortgage insurer acceptable to Fannie Mae in exchange for Fannie Mae Securities. The purpose of the Pool Purchase Contract is to provide for certain additions, deletions and changes to the Fannie Mae Guides relating to the purchase of such mortgage loans. In the event of a conflict between the Pool Purchase Contract and the Fannie Mae Guides, the Pool Purchase Contract will control. The description set forth below assumes that the Pool Purchase Contract will be executed substantially in the form presented by Fannie Mae to the Master Servicer as of the date hereof.

Under the Pool Purchase Contract, Fannie Mae will purchase both mortgage loans eligible under the guidelines set forth in the Fannie Mae Guides and mortgage loans insured under the Home Ready Program that conform to the conditions set forth in the Pool Purchase Contract.

Pursuant to the requirements of the Fannie Mae Guides, as amended, the original principal balance of each mortgage loan to be sold to Fannie Mae may not exceed the amount established from time to time by Fannie Mae. The mortgage loans must be mortgage loans with loan-to-value ratios not in excess of 100%; mortgage loans with loan-to-value ratios exceeding 80% must have the principal amount of the indebtedness in excess of 75% of the appraised value of the home insured by a policy of private mortgage insurance. The provider of the mortgage insurance must be acceptable to Fannie Mae.

Under the Pool Purchase Contract, the 100% loan-to-value limitation for mortgage loans will be based upon the lower of (1) the acquisition cost plus rehabilitation cost, if any, of a home, or (2) the appraised value of a home after completion of any rehabilitation. The maximum combined loan-to-value ratio is also 100% where subordinate financing is provided, so long as the mortgage loan does not exceed a 75% loan-to-value ratio. The Pool Purchase Contract also provides that, in underwriting mortgage loans for the Home Ready Program, certain exceptions will be made from the Fannie Mae Guides for down payment requirements and for determining whether a household's income satisfies the requirements for purchase by Fannie Mae.

The Pool Purchase Contract obligates the Master Servicer to service the mortgage loans in accordance with the requirements of the Fannie Mae Guides and the Pool Purchase Contract.

Fannie Mae Securities

Each Fannie Mae Security will represent the entire interest in a specified pool of mortgage loans purchased by Fannie Mae from the Master Servicer and identified in records maintained by Fannie Mae. The Pool Contract requires that each Fannie Mae Security be in a minimum amount of \$250,000 (or, in each case, the lesser amounts as may be approved by Fannie Mae). The mortgage loans backing each Fannie Mae Security are to bear interest at a rate higher than each Fannie Mae Security (the "pass-through rate"). The difference between the interest rate on the mortgage

loans and the pass-through rate on the Fannie Mae Security is to be collected by the Master Servicer and used to pay the Master Servicer's servicing fee and Fannie Mae's guaranty fee.

Fannie Mae will guarantee to the registered holder of the Fannie Mae Securities that it will distribute amounts representing scheduled principal and interest at the applicable pass-through rate on the mortgage loans in the pools represented by the Fannie Mae Securities, whether or not received, and the full principal balance of any foreclosed or other finally liquidated mortgage loan, whether or not that principal balance is actually received. **The obligations of Fannie Mae under these guarantees are obligations solely of Fannie Mae and are not backed by, nor entitled to the faith and credit of the United States. If Fannie Mae were unable to satisfy these obligations, distributions to the Trustee, as the registered holder of the Fannie Mae Securities, would consist solely of payments and other recoveries on the underlying mortgage loans and, accordingly, monthly distributions to the Trustee, as the holder of the Fannie Mae Securities, and payments on Outstanding Bonds would be affected by delinquent payments and defaults on those mortgage loans.**

Payments on the Mortgage Loans; Distributions on the Fannie Mae Securities

Payments on a Fannie Mae Security will be made on the 25th day of each month (beginning with the month following the month the Fannie Mae Security is issued), or, if the 25th day is not a business day, on the first business day next succeeding the 25th day. With respect to each Fannie Mae Security, Fannie Mae will distribute to the Trustee an amount equal to the total of (i) the principal due on the mortgage loans in the related pool underlying the Fannie Mae Security during the period beginning on the second day of the month prior to the month of the distribution and ending on the first day of the month of distribution, (ii) the stated principal balance of any mortgage loan that was prepaid in full during the second month next preceding the month of the distribution (including as prepaid for this purpose at Fannie Mae's election any mortgage loan repurchased by Fannie Mae because of Fannie Mae's election to repurchase the mortgage loan after it is delinquent, in whole or in part, with respect to four consecutive installments of principal and interest; or because of Fannie Mae's election to repurchase that mortgage loan under certain other circumstances), (iii) the amount of any partial prepayment of a mortgage loan received in the second month next preceding the month of distribution, and (iv) one month's interest at the pass-through rate on the principal balance of the Fannie Mae Security as reported to the Trustee (assuming the Trustee is the registered holder) in connection with the previous distribution (or, respecting the first distribution, the principal balance of the Fannie Mae Security on its issue date).

For purposes of distributions, a mortgage loan will be considered to have been prepaid in full if, in Fannie Mae's reasonable judgment, the full amount finally recoverable on account of that mortgage loan has been received, whether or not that full amount is equal to the stated principal balance of the mortgage loan. Fannie Mae may, in its discretion, include with any distribution principal prepayments, both full and partial, received during the month prior to the month of distribution but is under no obligation to do so.

THE MASTER SERVICER

On April 29, 2015, the Bond Finance Committee of THDA authorized negotiations with U.S. Bank to serve as Master Servicer for THDA's mortgage-backed securities program. THDA does not currently have an agreement with U.S. Bank or any other entity to serve as Master Servicer and THDA cannot provide assurances that such an agreement will be successfully negotiated. Unless and until a Master Servicer is in place, THDA will not purchase Fannie Mae Securities as described above.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS AND SERVICERS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the "Working Agreements"). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA's security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA's rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent's privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the "O. A. Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA currently has agreements with U.S. Bank and Magna Bank (the "Servicers") to service Program Loans (the "Servicing Agreements"). U.S. Bank services approximately 87% of THDA's entire portfolio of mortgage loans. Magna Bank services the remainder. The Servicing Agreements provide for the collection and remittance of Program Loan payments to THDA or a designated depository. Prior to remittance, the Servicer deducts a servicing fee, late charges and amounts to be held in escrow accounts for real property taxes, mortgage and hazard insurance premiums, and assessments. The servicing fee under current Servicing Agreements is 3/8% annually. The Servicer is required to notify THDA in the event of any default on a Program Loan, and the Servicer may conduct foreclosure proceedings with the consent and at the expense of THDA. The Servicer is required to repurchase any Program Loan from THDA at any

time THDA suffers or is threatened with a material loss by reason of the Servicer's failure to perform its obligations under the Servicing Agreement. THDA may also terminate a Servicing Agreement for inadequate performance by the Servicer.

THDA is authorized to service Program Loans but, to date, has not undertaken the servicing function for Program Loans. As set forth under the heading "THDA-Executive Staff Members", THDA hired a Director of Mortgage Servicing in February 2016 and is in the process of considering options with respect to the servicing of Program Loans, including self-servicing. No assurance can be provided that THDA will commence servicing loans or, if it does so, the timing thereof.

Guide for Servicers

THDA provides each Servicer with a Guide for Servicers (the "Servicer Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax requirements. The Servicer Guide includes substantive servicing requirements, incorporates the limitation on assumption of mortgages contained in the federal tax code, and specifies the procedures to be followed by the Servicer to comply with THDA requirements and the federal tax code. The Servicer Guide also includes a list of the documents that must be maintained by the Servicer, copies of all THDA's servicing and loan assumption forms, together with instructions for their completion and a schedule for the submission of the required forms and reports to THDA.

THDA requires monthly reports from Servicers. Each Servicer's performance is monitored and its servicing record is subject to examination by THDA's staff. Examinations are performed monthly from documentation received from the Servicer.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove.

2013 GENERAL RESOLUTION

This Appendix E includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the "General Residential Finance Program Bond Resolution."

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

"Account" means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

"Accountant" means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

"Act" means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

"Appreciation Bond" means any Bond whose Issue Amount is less than 97.5% of the Maturity Amount.

"Authorized Officer" means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

"Bond" or "Bonds" means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

"Bond Counsel's Opinion" means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

"Bondholder" or "holder" or words of similar import, when used with reference to a Bond means the registered owner of any Outstanding Bond.

"Bond Reserve Fund" means the Bond Reserve Fund established pursuant to Section 5.1.

"Bond Reserve Fund Requirement" means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

"Code" means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

- (1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;
- (2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

"Program Security" means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

"Projected Cash Flow Statement" means a Certificate delivered pursuant to the provisions of Section 7.11.

"Rating Agency" means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody's and S&P.

"Redemption Account" means the Redemption Account which is established and created in the Revenue Fund pursuant to this Resolution.

"Redemption Date" means the date upon which Bonds are to be called for redemption pursuant to this Resolution.

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

"Refunding Bond" means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

"Resolution" means this Resolution and any amendments or supplements made in accordance with its terms.

"Revenue Fund" means the Revenue Fund established pursuant to Section 5.1.

"Revenues" means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

"S&P" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, and any successor.

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

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

"State" means the State of Tennessee.

"Supplemental Resolution" means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

"THDA" means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

"Trustee" means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI

REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII

PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

(1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or

(2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or

(3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of or Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$823,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Amount Outstanding as of February 29, 2016 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A	December 23, 2009	\$100,000,000	--	\$ 17,430,000	3.96%
2010-A/ 2009-B, Subseries B-1	June 17, 2010	74,710,000	\$ 85,290,000	25,835,000	3.85
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	64,450,000	3.15
2011-A/ 2009-B, Subseries B-3	April 14, 2011	40,000,000	60,000,000	18,725,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	<u>69,680,000</u>	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,290,000	34,710,000	<u>69,140,000</u>	3.01
Issue 2015-A	May 28, 2015	<u>163,850,000</u>		<u>159,750,000</u>	2.78
TOTAL		<u>\$523,850,000</u>	<u>\$300,000,000</u>	<u>\$425,010,000</u>	

(1) Bond yield.

As of February 29, 2016, 4,223 mortgage loans in the approximate aggregate principal amount of \$383,025,696 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$1,387,690 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of February 29, 2016 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2006-3	October 31, 2006	\$100,000,000	\$ 26,415,000	4.58
2007-1	March 13, 2007	100,000,000	30,215,000	4.49
2007-2	June 6, 2007	120,000,000	37,605,000	4.53
2007-3	August 7, 2007	150,000,000	42,925,000	4.77
2007-4	October 30, 2007	150,000,000	47,905,000	4.79
2008-1	May 29, 2008	60,000,000	17,895,000	4.93
2008-3	September 30, 2008	90,000,000	6,065,000	5.00
2009-1	June 11, 2009	50,000,000	22,525,000	4.39
2009-2	September 30, 2009	75,000,000	32,625,000	4.06
2010-1	October 13, 2010	120,700,000	56,315,000	3.57
2011-1	December 1, 2011	141,255,000	89,250,000	3.80
2012-1	July 19, 2012	133,110,000	90,365,000	3.26
2012-2	November 15, 2012	<u>97,625,000</u>	<u>73,790,000</u>	2.92
TOTAL		<u>\$1,387,690,000</u>	<u>\$573,895,000</u>	

(1) Bond yield.

As of February 29, 2016, 9,445 mortgage loans in the approximate aggregate principal amount of \$626,291,302 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets, including mortgage loans, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program to begin on June 1, 2016. The mortgage credit certificate may provide assistance to a maximum of approximately \$217,900,000 in aggregate principal amount of single family mortgage loans by the program end date of December 31, 2017. To be eligible for the mortgage credit certificate program, loans must close prior to the program end date and such loans may not be funded with proceeds of qualified mortgage bonds such as the Issue 2016-1 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets, other than its mortgage assets (the "non-mortgage assets"). These non-mortgage assets are invested only in investments authorized by the Act, THDA's investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA's investment of THDA non-mortgage assets to the Executive Director of THDA.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bonds certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds certificates will be printed and delivered.

RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES**General**

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2016-1 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

In addition to the foregoing, THDA is in the process of implementing a program under which THDA approved originating agents would make loans to qualified borrowers to finance the purchase of qualified single-family residences in Tennessee and that are insured by private mortgage insurance issued by an entity acceptable to Fannie Mae. Such loans would be pooled and would back Program Securities guaranteed as to timely payment of principal and interest by Fannie Mae. THDA may purchase such Program Securities using bond proceeds and such purchased Program Securities may be held under the General Resolution. THDA may use a portion of the proceeds of the Offered Bonds to purchase Fannie Mae Securities although no assurances can be provided that THDA will do so. THDA does not expect to use proceeds of the Offered Bonds to directly purchase conventional loans backed by private mortgage insurance unless such loans are pooled into Program Securities. See Appendix C for additional information regarding Fannie Mae and Fannie Mae Securities.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

THDA's current income limits range from \$56,280 to \$93,660 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from

Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix D for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing

to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for

compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

THDA has agreements with qualified financial institutions to service THDA Program Loans ("Servicers"). Originating Agents, who also qualify as Servicers, may service the Program Loans they originate. If an Originating Agent declines to service these Program Loans, the Originating Agent, with the approval of THDA, may choose another Servicer to do so. Servicers may be mortgage banking firms or commercial banks. A Servicer may transfer any or all of the Program Loans it services to another approved Servicer, with prior THDA approval. THDA Servicers currently are U.S. Bank and Magna Bank.

THDA is authorized to service Program Loans but, to date, has not undertaken the servicing function for Program Loans. As set forth under the heading "THDA-Executive Staff Members", THDA hired a Director of Mortgage Servicing in February 2016 and is in the process of considering options with respect to the servicing of Program Loans, including self-servicing. No assurance can be provided that THDA will commence servicing loans or, if it does so, the timing thereof.

THDA requires regular reports from Servicers updating the total number of Program Loans serviced and providing certain information for each Program Loan including, without limitation, delinquency and foreclosure data. THDA's agreements with Servicers (the "Servicing Agreements") provide for the collection and remittance of Program Loan payments to THDA or a designated depository. The Servicers' records relating to serviced Program Loans are subject to examination by THDA's Single Family and Internal Audit Divisions.

THDA provides each Servicer with a Guide for Servicers which sets forth complete requirements and procedures for servicing Program Loans. THDA may terminate any Servicing Agreement when there is inadequate performance by the Servicer. THDA may also require that a Servicer purchase any Program Loan from THDA at any time THDA suffers or is threatened with a material loss by reason of a Servicer's failure to perform its obligations with respect to the Program Loans under the Servicing Agreement. For information about Servicing Agreements and substantive requirements relating to servicing Program Loans, see Appendix D.

May 18, 2016

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$24,060,000 Issue 2016-1A (AMT)
\$100,940,000 Issue 2016-1B (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$24,060,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2016-1A (AMT) (the "Issue 2016-1A Bonds"), and \$100,940,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2016-1B (Non-AMT) (the "Issue 2016-1B Bonds" and, together with the Issue 2016-1A Bonds, the "Issue 2016-1 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2016-1 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on January 26, 2016, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on April 13, 2016 (together, the "Supplemental Resolution," and, together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2016-1 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2016-1 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2016-1 Bonds are being issued to refund certain outstanding obligations of THDA and to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2016-1 Bonds in order that interest on the Issue 2016-1 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2016-1 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.

2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.
3. The Issue 2016-1 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.
4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2016-1 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.
5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2016-1 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.
6. The Issue 2016-1 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.
7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2016-1 Bonds is excluded from gross income of the owners thereof for federal income tax purposes; (ii) interest on the Issue 2016-1A Bonds will be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on the Issue 2016-1B Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.
8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2016-1 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2016-1 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2016-1 Bonds may have to take interest on such Issue 2016-1 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2016-1 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2016-1 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2016-1 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES**Delinquencies and Foreclosures as of December 31, 2015*

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.05%, based on a total of 9,187 Program Loans as of December 31, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2015, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2015

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	159	\$12,734,851	2.02%	1.40% ⁽⁴⁾
VA Guaranteed	7	535,395	3.15	0.87
Privately Insured	2	116,656	1.14	0.45
USDA/RD Guaranteed.....	13	801,976	2.12	(5)
Uninsured.....	<u>7</u>	<u>489,121</u>	2.17	(5)
TOTAL	<u>188</u>	<u>\$14,678,000</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.04%, based on a total of 9,187 Program Loans as of December 31, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2015, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2015

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	323	\$24,826,626	4.11%	2.52% ⁽⁴⁾
VA Guaranteed	10	844,972	4.50	1.71
Privately Insured	6	288,704	3.43	0.84
USDA/RD Guaranteed.....	23	1,786,082	3.75	(5)
Uninsured.....	<u>9</u>	<u>497,954</u>	2.79	(5)
TOTAL	<u>371</u>	<u>\$28,244,338</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bonds issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding 1974 General Resolution Transferred Loans transferred to the General Resolution as of June 30, 2014. The delinquency and foreclosure data does not include data regarding Transferred Program Loans expected to be transferred to the General Resolution in connection with the Offered Bonds.

The overall rate of Program Loans in foreclosure was 0.82%, based on a total of 9,187 Program Loans as of December 31, 2015 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of December 31, 2015 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2015, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	71	\$6,302,318	0.90%	1.59% ⁽⁴⁾
VA Guaranteed	2	93,518	0.90	1.00
Privately Insured	0	0	0.00	0.32
USDA/RD Guaranteed.....	2	150,812	0.33	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>75</u>	<u>\$6,546,648</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of September 30, 2015

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.95%, based on a total of 8,311 Program Loans as of September 30, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2015, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	142	\$ 9,999,459	1.98%	1.34% ⁽⁴⁾
VA Guaranteed	6	569,317	2.96	0.95
Privately Insured	0	0	0.00	0.47
USDA/RD Guaranteed.....	10	571,925	1.96	(5)
Uninsured.....	4	234,799	1.38	(5)
TOTAL	<u>162</u>	<u>\$11,375,500</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2015.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 3.60%, based on a total of 8,311 Program Loans as of September 30, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2015, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	271	\$21,077,550	3.79%	2.64% ⁽⁴⁾
VA Guaranteed	7	376,411	3.45	1.78
Privately Insured	2	52,059	1.28	0.83
USDA/RD Guaranteed.....	16	1,175,434	3.14	(5)
Uninsured.....	<u>3</u>	<u>120,944</u>	1.04	(5)
TOTAL	<u>299</u>	<u>\$22,802,398</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.83%, based on a total of 8,311 Program Loans as of September 30, 2015 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2015 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2015, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	58	\$5,514,667	0.81%	1.70% ⁽⁴⁾
VA Guaranteed	1	112,137	0.49	1.07
Privately Insured	3	191,336	1.92	0.32
USDA/RD Guaranteed.....	7	465,250	1.38	(5)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(5)
TOTAL	<u>69</u>	<u>\$6,283,390</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of June 30, 2015

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.91%, based on a total of 7,789 Program Loans as of June 30, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2015, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2015

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	127	\$ 9,535,248	1.92%	1.63% ⁽⁴⁾
VA Guaranteed	3	237,466	1.49	0.86
Privately Insured	1	86,579	0.58	0.46
USDA/RD Guaranteed.....	13	836,227	2.52	(5)
Uninsured.....	<u>5</u>	<u>257,152</u>	1.72	(5)
TOTAL	<u>149</u>	<u>\$10,952,672⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2015.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 3.47%, based on a total of 7,789 Program Loans as of June 30, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2015, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2015

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	239	\$18,336,027	3.62%	2.71% ⁽⁴⁾
VA Guaranteed	5	317,110	2.48	1.90
Privately Insured	4	151,532	2.31	0.89
USDA/RD Guaranteed.....	21	1,442,129	4.07	(5)
Uninsured.....	<u>1</u>	<u>77,780</u>	0.34	(5)
TOTAL	<u>270</u>	<u>\$20,324,578⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.81%, based on a total of 7,789 Program Loans as of June 30, 2015 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of June 30, 2015 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2014, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	52	\$4,645,584	0.79%	1.84% ⁽⁴⁾
VA Guaranteed	1	38,722	0.50	1.05
Privately Insured	4	148,859	2.31	0.36
USDA/RD Guaranteed.....	5	337,602	0.97	(5)
Uninsured.....	<u>1</u>	<u>44,499</u>	0.34	(5)
TOTAL	<u>63</u>	<u>\$5,215,266</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended June 30, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of March 31, 2015

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.42%, based on a total of 7,023 Program Loans as of March 31, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2015, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	88	\$7,084,918	1.49%	1.26% ⁽⁴⁾
VA Guaranteed	1	75,328	0.53	0.81
Privately Insured	0	0	0.00	0.40
USDA/RD Guaranteed.....	8	537,372	1.67	(5)
Uninsured.....	<u>3</u>	<u>182,962</u>	1.10	(5)
TOTAL	<u>100</u>	<u>\$7,880,580</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2015.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.03%, based on a total of 7,023 Program Loans as of March 31, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2015, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	249	\$17,641,440	4.21%	2.85% ⁽⁴⁾
VA Guaranteed	5	261,355	2.67	2.11
Privately Insured	9	303,863	5.29	0.96
USDA/RD Guaranteed.....	20	1,298,393	4.18	(5)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(5)
TOTAL	<u>283</u>	<u>\$19,505,051</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.27%, based on a total of 7,023 Program Loans as of March 31, 2015 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2015 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2015, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	18	\$1,032,909	0.30%	1.84% ⁽⁴⁾
VA Guaranteed	1	112,047	0.53	1.20
Privately Insured	0	0	0.00	0.47
USDA/RD Guaranteed.....	0	0	0.00	(5)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(5)
TOTAL	<u>19</u>	<u>\$1,144,956</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.



Tennessee Housing
Development Agency

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2016-2 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that (i) interest on the Issue 2016-2A Bonds will be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Issue 2016-2B Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"). In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2016-2 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2016-2 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds

\$24,615,000 Issue 2016-2A (AMT)

\$100,385,000 Issue 2016-2B (Non-AMT)[†]

Dated: Date of Delivery

Due: As shown on inside front cover

The Issue 2016-2A Bonds (the "Issue 2016-2A Bonds") and the Issue 2016-2B Bonds (the "Issue 2016-2B Bonds" and, together with the Issue 2016-2A Bonds, the "Issue 2016-2 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on January 1, 2017, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about October 18, 2016.

CITIGROUP

RAYMOND JAMES

FTN FINANCIAL CAPITAL MARKETS

J.J.B. HILLIARD, W.L. LYONS, LLC

RBC CAPITAL MARKETS

J.P. MORGAN

WELLS FARGO SECURITIES

September 14, 2016

[†]Interest on the Issue 2016-2B Bonds is not included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$24,615,000 Issue 2016-2A (AMT)

\$24,615,000 Term Bonds			
<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
January 1, 2047 (PAC)	\$24,615,000	3.50%	880461KB3

\$100,385,000 Issue 2016-2B (Non-AMT)[†]

\$39,165,000 Serial Bonds						
<u>Year</u>	<u>Principal Amount Due January 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>	<u>Principal Amount Due July 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
2017				\$ 900,000	0.72%	880461KC1
2018	\$1,075,000	0.76%	880461KD9	1,080,000	0.95	880461KE7
2019	1,085,000	0.95	880461KF4	1,100,000	1.00	880461KG2
2020	1,105,000	1.10	880461KH0	1,115,000	1.15	880461KJ6
2021	1,130,000	1.25	880461KK3	1,140,000	1.30	880461KL1
2022	1,150,000	1.55	880461KM9	1,160,000	1.60	880461KN7
2023	1,175,000	1.70	880461KP2	1,190,000	1.75	880461KQ0
2024	1,200,000	1.95	880461KR8	1,225,000	2.00	880461KS6
2025	1,240,000	2.10	880461KT4	1,250,000	2.15	880461KU1
2026	1,270,000	2.25	880461KV9	1,290,000	2.30	880461KW7
2027	1,310,000	2.35	880461KX5	1,330,000	2.45	880461KY3
2028	1,355,000	2.55	880461KZ0	1,370,000	2.60	880461LA4
2029	1,395,000	2.65	880461LH9	1,425,000	2.65	880461LG1
2030	1,445,000	2.70	880461LJ5	1,475,000	2.75	880461LK2
2031	1,505,000	2.80	880461LL0	1,530,000	2.85	880461LB2
2032	1,555,000	2.90	880461LM8	1,590,000	2.95	880461LN6

\$61,220,000 Term Bonds			
<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
July 1, 2036	\$13,910,000	3.10%	880461LC0
July 1, 2041	12,235,000	3.25	880461LD8
July 1, 2046	12,670,000	3.35	880461LE6
January 1, 2047 (PAC)	22,405,000	3.50	880461LF3

PRICE OF ISSUE 2016-2A BONDS DUE JANUARY 1, 2047 (PAC): 107.282%

PRICE OF ISSUE 2016-2B BONDS DUE JANUARY 1, 2047 (PAC): 107.781%

PRICE OF ALL REMAINING ISSUE 2016-2 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

[†] Interest on the Issue 2016-2B Bonds is not included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds
\$24,615,000 Issue 2016-2A (AMT)
\$100,385,000 Issue 2016-2B (Non-AMT)[†]

INTRODUCTION

This Official Statement (the “Official Statement”) provides certain information in connection with the issuance by the Tennessee Housing Development Agency (“THDA”) of its Residential Finance Program Bonds, Issue 2016-2A in the aggregate principal amount of \$24,615,000 (the “Issue 2016-2A Bonds”), and Issue 2016-2B in the aggregate principal amount of \$100,385,000 (the “Issue 2016-2B Bonds” and, together with the Issue 2016-2A Bonds, the “Issue 2016-2 Bonds” or the “Offered Bonds”).

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the “Act”). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the “General Resolution”) and by a Resolution adopted by THDA on May 24, 2016, as amended and supplemented by the Bond Finance Committee of THDA (the “Bond Finance Committee”) on September 13, 2016 (the “Issue 2016-2 Supplemental Resolution”). The General Resolution and the Issue 2016-2 Supplemental Resolution are herein collectively referred to as the “Resolution.”

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2016-2 Bonds on May 23, 2016.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of July 31, 2016 (unaudited), Bonds in the aggregate principal amount of \$940,035,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$499,545,000 were outstanding under THDA’s Homeownership Program Resolution (the “1985 General Resolution”), and bonds in the aggregate principal amount of \$382,705,000 were outstanding under THDA’s Housing Finance Program Resolution (the “2009 General Resolution”). As of July 31, 2016, no bonds were outstanding under THDA’s Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”). All assets under the 1974 General Resolution have been transferred to the General Resolution. For more information see “RESIDENTIAL FINANCE PROGRAM LOANS-Description of Residential Finance Programs Loans-Transfer of Assets”.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption “SECURITY AND SOURCES OF PAYMENT OF BONDS”. All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the “Bonds”. The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the “Public Pledge Act”). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee’s codification of Article 9 of the Uniform Commercial Code.

[†]Interest on the Issue 2016-2B Bonds is not included in corporations’ calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects to use the proceeds from the issuance of the Issue 2016-2A Bonds to (i) refund all Issue 2007-1 Bonds issued and outstanding under the 1985 General Resolution (the "Prior Bonds") and (ii) make a deposit to the Bond Reserve Fund. As a result of the refunding, mortgage loans previously allocable to the Prior Bonds in an expected aggregate outstanding amount of approximately \$26,769,137 will be allocated to the Offered Bonds (the "Transferred Program Loans"). See "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS" for information about the Transferred Program Loans. In addition, other investments allocable to the Prior Bonds in the projected amount of approximately \$449,611 will be transferred to accounts established for the Offered Bonds under the General Resolution (the "Transferred Investments"). It is anticipated that the Prior Bonds will be redeemed prior to maturity on January 1, 2017, at a redemption price of 100% of the principal amount thereof plus accrued interest. No assurance can be provided that the Prior Bonds will actually be refunded.

THDA expects that the proceeds of the Issue 2016-2B Bonds will be used to: (i) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (ii) pay capitalized interest, if any; (iii) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (iv) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix G.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution, including the Transferred Program Loans and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" shall include the Transferred Program Loans as well as any new Program Loans (including participations therein) financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2016-2 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property

based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA does not intend to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance. While the Issue 2016-2 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of June 30, 2016 (unaudited), 10,085 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$935,160,916. Based on the outstanding principal balance of Program Loans as of June 30, 2016, approximately 88.84% were FHA insured, approximately 2.22% were VA guaranteed, approximately 2.10% were insured by private mortgage insurance companies, approximately 4.56% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.28% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See "RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data" and Appendix B under the heading "Private Mortgage Insurance Programs".

U.S. Bank National Association (the "Trustee") is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2016-2 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2016-2 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D "2013 GENERAL RESOLUTION". Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, ("DTC"), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each series and maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such series and maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F "BOOK-ENTRY-ONLY SYSTEM" for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2016-2 Bonds and is payable on January 1, 2017, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

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Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2016-2A Bonds maturing on January 1, 2047, are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2017, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2016-2A PAC Term Bonds Due January 1, 2047		
<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2017		\$235,000
2018	\$240,000	245,000
2019	250,000	250,000
2020	255,000	260,000
2021	265,000	270,000
2022	275,000	280,000
2023	285,000	290,000
2024	295,000	300,000
2025	305,000	310,000
2026	315,000	320,000
2027	325,000	335,000
2028	340,000	345,000
2029	350,000	355,000
2030	365,000	370,000
2031	375,000	380,000
2032	390,000	395,000
2033	405,000	410,000
2034	415,000	425,000
2035	430,000	440,000
2036	445,000	455,000
2037	465,000	470,000
2038	480,000	485,000
2039	495,000	505,000
2040	515,000	520,000
2041	530,000	540,000
2042	550,000	560,000
2043	570,000	580,000
2044	590,000	600,000
2045	610,000	620,000
2046	630,000	645,000
2047	660,000 (maturity)	

The Issue 2016-2B Bonds maturing on July 1, 2036, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2033, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2016-2B Term Bonds Due July 1, 2036		
<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2033	\$1,620,000	\$1,655,000
2034	1,685,000	1,720,000
2035	1,755,000	1,790,000
2036	1,825,000	1,860,000 (maturity)

The Issue 2016-2B Bonds maturing on July 1, 2041, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2037, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2016-2B
Term Bonds Due July 1, 2041**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2037	\$1,895,000	\$1,935,000
2038	1,120,000	975,000
2039	995,000	1,015,000
2040	1,040,000	1,060,000
2041	1,090,000	1,110,000 (maturity)

The Issue 2016-2B Bonds maturing on July 1, 2046, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2042, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2016-2B
Term Bonds Due July 1, 2046**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2042	\$1,140,000	\$1,165,000
2043	1,190,000	1,225,000
2044	1,250,000	1,280,000
2045	1,310,000	1,340,000
2046	1,370,000	1,400,000 (maturity)

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The Issue 2016-2B Bonds maturing on January 1, 2047, are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2017, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2016-2B
PAC Term Bonds Due January 1, 2047**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2017		\$215,000
2018	\$215,000	220,000
2019	225,000	230,000
2020	235,000	240,000
2021	240,000	245,000
2022	250,000	255,000
2023	260,000	265,000
2024	270,000	270,000
2025	275,000	285,000
2026	290,000	295,000
2027	300,000	300,000
2028	305,000	315,000
2029	320,000	325,000
2030	330,000	335,000
2031	340,000	350,000
2032	355,000	360,000
2033	365,000	370,000
2034	380,000	385,000
2035	395,000	400,000
2036	410,000	415,000
2037	420,000	430,000
2038	435,000	445,000
2039	450,000	460,000
2040	465,000	480,000
2041	485,000	495,000
2042	500,000	510,000
2043	520,000	525,000
2044	535,000	545,000
2045	555,000	565,000
2046	575,000	585,000
2047	590,000 (maturity)	

Optional Redemption. Except as otherwise described in the follow paragraph, the Issue 2016-2 Bonds maturing on and after July 1, 2026, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after January 1, 2026, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

The Issue 2016-2A Bonds maturing January 1, 2047 (the "Issue 2016-2A PAC Bonds") and the Issue 2016-2B Bonds maturing January 1, 2047 (the "Issue 2016-2B PAC Bonds" and, together with the Issue 2016-2A PAC Bonds, the "PAC Bonds") are subject to redemption at the option of THDA prior to their maturity, either as a whole or in part, at any time on or after January 1, 2026, at the Redemption Prices set forth below (expressed as a percentage of the principal amount to be redeemed) plus accrued interest to the date of redemption:

<u>Redemption Period</u>	<u>2016-2A PAC Bonds Redemption Price</u>	<u>2016-2B PAC Bonds Redemption Price</u>
January 1, 2026 to June 30, 2026	100.861%	100.917%
July 1, 2026 to December 31, 2026	100.768	100.818
January 1, 2027 and thereafter	100.000	100.000

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2016-2 Principal Payments (as defined below). Any Excess 2016-2 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing January 1, 2017; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2016-2 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds are equal to or less than 400% PSA (as defined below under “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds”), as determined by THDA, then available Excess 2016-2 Principal Payments shall first be applied to redeem PAC Bonds on a pro rata basis up to an amount correlating to the Planned Amortization Amount (as defined below) for the related PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “*Mandatory Redemption – 10 Year Rule*,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds are in excess of 400% PSA, as determined by THDA, then available Excess 2016-2 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the related PAC Bonds shall first be applied to redeem PAC Bonds on a pro rata basis and, subject to the application of the 10-year rule as described below under the heading “*Mandatory Redemption – 10 Year Rule*,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an “Excess Principal PAC Bond Redemption”); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2016-2 Principal Payments which is in excess of 400% PSA, (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds’ proportionate amount of all Issue 2016-2 Bonds then Outstanding, and (iii) the PAC Bonds shall be redeemed on a pro rata basis.

“Excess 2016-2 Principal Payments” means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

“Planned Amortization Amount” means the dollar amount applicable to each PAC Bond for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the Issue 2016-2A PAC Bonds and Issue 2016-2B PAC Bonds, respectively, assumed to be redeemed from Excess 2016-2 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds. See “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds” for a description of PSA prepayment rates.

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The Planned Amortization Amounts for the Issue 2016-2A PAC Bonds and Issue 2016-2B PAC Bonds (which assumes the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination, the allocation of the Transferred Program Loans to the Offered Bonds in an aggregate principal amount of approximately \$26,769,137 with an approximate weighted average maturity of 249 months, and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedules

Date	Issue 2016-2A PAC Bonds Planned Amortization Amount	Issue 2016-2B PAC Bonds Planned Amortization Amount
January 1, 2017	\$ 120,000	\$ 105,000
July 1, 2017	755,000	680,000
January 1, 2018	1,680,000	1,525,000
July 1, 2018	2,890,000	2,625,000
January 1, 2019	4,370,000	3,965,000
July 1, 2019	6,080,000	5,525,000
January 1, 2020	7,880,000	7,170,000
July 1, 2020	9,605,000	8,745,000
January 1, 2021	11,250,000	10,240,000
July 1, 2021	12,815,000	11,665,000
January 1, 2022	14,305,000	13,015,000
July 1, 2022	15,725,000	14,300,000
January 1, 2023	17,060,000	15,520,000
July 1, 2023	18,325,000	16,675,000
January 1, 2024	19,525,000	17,765,000
July 1, 2024	20,650,000	18,790,000
January 1, 2025	21,710,000	19,750,000
July 1, 2025	22,700,000	20,660,000
January 1, 2026	23,630,000	21,505,000
July 1, 2026	24,495,000	22,295,000
January 1, 2027	24,615,000	22,405,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the related PAC Bonds are redeemed from amounts on deposit in the Issue 2016-2 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds.”

Special Optional Redemption of the Offered Bonds, including Cross Calls The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading “DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds”; (ii) except as otherwise described under the headings “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and “ – Mandatory Redemption – 10 Year Rule”, repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, “Code”), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, (b) shall not be subject to

redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bond to exceed the related Planned Amortization Amount shown above in the PAC Bonds Amortization Schedules and (c) shall be redeemed on a pro rata basis to the extent of any such special optional redemption. The Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph and, to the extent PAC Bonds are redeemed pursuant to any special optional redemption, the PAC Bonds shall be redeemed on a pro rata basis. See “ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments” and “ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices”.

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof allocable to the Offered Bonds shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the related Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedules only if there are no other Offered Bonds outstanding and if the PAC Bonds are to be redeemed pursuant to this paragraph, the PAC Bonds shall be redeemed on a pro rata basis.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans (or portions thereof) allocable to the Offered Bonds in accordance with the following approximate 10 year rule percentages to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Commencement Date</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
October 18, 2016	17.67%
March 13, 2017	21.05
October 18, 2026	100.00%

THDA will redeem the Offered Bonds in accordance with this schedule to the extent required to comply with the Code. THDA reserves the right to modify this schedule at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory redemption on July 1, 2017, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2016-2 Bonds Subaccount of the Loan Fund on June 1, 2017, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2016-2 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on April 1, 2020, to the extent any amounts remain on deposit in the Issue 2016-2 Bonds Subaccount of the Loan Fund on March 1, 2020.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding and, to the extent PAC Bonds are redeemed, the PAC Bonds shall be redeemed on a pro rata basis.

Selection By Lot

If less than all of the Issue 2016-2 Bonds of like series and maturity are to be redeemed, the particular Issue 2016-2 Bonds of such series and maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

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APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2016-2 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 125,000,000.00
Premium on Issue 2016-2A PAC Bond	1,792,464.30
Premium on Issue 2016-2B PAC Bond	1,743,333.05
Transferred Program Loans	26,769,137.27
Transferred Investments	449,610.92
TOTAL SOURCES	<u>\$ 155,754,545.54</u>

USES

Deposit to Loan Fund ⁽¹⁾	\$ 127,154,137.27
Redemption of Prior Bonds	24,615,000.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,192,217.80
Deposit to Bond Reserve Fund	1,792,464.30
Costs of Issuance	241,300.00
Underwriters' Fee	759,426.17
TOTAL USES	<u>\$ 155,754,545.54</u>

(1) Includes \$100,385,000.00 in proceeds from Issue 2016-2B plus \$26,769,137.27 in Transferred Program Loans.

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumptions that (i) Transferred Program Loans in the aggregate principal amount of approximately \$26,769,137, with a weighted average maturity of approximately 249 months and a weighted average interest rate of approximately 5.54%, will be allocated to the Offered Bonds and (ii) THDA originates approximately \$100,385,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 3.98%. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established

under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2016-2 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA, including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" for descriptions of the various Program Loan products and Appendix G "RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES" for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2016-2B Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 3.98% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2016-2B Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2016-2B Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on July 25, 2016. As of September 1, 2016, THDA has committed a total principal amount of approximately \$22,822,000 of Program Loans, all of which are Great Choice Program Loans and Homeownership for the Brave Program Loans, that will be allocated to the Offered Bonds. See “RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans”. Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

In recent years a number of financial institutions and related entities have announced large losses as a result of their mortgage activities and the increasing number of defaults and foreclosures on such mortgages. The United States Congress has passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), and may pass additional consumer protection and bankruptcy legislation, as a result of the adverse effects of the mortgage situation on individuals and families in the United States. Likewise, the Tennessee General Assembly may enact consumer protection legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA's single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA's activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA's single-family loans could adversely affect the THDA's ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans (including Transferred Program Loans) will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” “- Special Optional Redemption of the Offered Bonds, including Cross Calls” and “- Mandatory Redemption – 10-Year Rule”.

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds.”

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA’s general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA’s current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA’s determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D “2013 GENERAL RESOLUTION” for a description of Program Expenses. THDA expects to use funds on deposit in the Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters’ fees, initial Trustee’s fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee’s fees, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see “THDA – THDA Funds”. THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum until July 1, 2018, 0.5% per annum until July 1, 2021, 1.0% per annum until July 1, 2025, and 1.25% per annum thereafter; and (iii) funds on deposit in the Issue 2016-2 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term “weighted average life” refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association (“PSA”)) prepayment standard or model (commonly referred to as the “PSA Prepayment Model”).

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, “0% PSA” assumes no prepayments of principal on the Program Loans. “25% PSA” assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. “50% PSA” assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. “75% PSA” assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. “100% PSA” assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. “150% PSA” assumes the principal of Program Loans will prepay at a rate 1.50 times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “200% PSA” assumes the principal of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. “300% PSA” assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “400% PSA” assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “500% PSA” assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors’ housing needs, job transfers, unemployment and mortgagors’ net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under “Changes in Federal or State Law” above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds”, and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2016-2 Bond Subaccount

of the Loan Fund is applied to finance Program Loans, (ii) approximately \$26,769,137 of Transferred Program Loans with an approximate weighted average maturity of 249 months and an approximate weighted average interest rate of 5.54% will be allocated to the Offered Bonds, (iii) Excess 2016-2 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iv) the PAC Bonds will be redeemed only in the related Planned Amortization Amounts as described under the heading "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds" and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate. For certain information regarding Transferred Program Loans see "DESCRIPTION OF TRANSFERRED PROGRAM LOANS" herein.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>Issue 2016-2A PAC Bond Average Life (in years)</u>	<u>Issue 2016-2B PAC Bond Average Life (in years)</u>
0%	17.5	17.5
25	13.6	13.6
50	9.0	9.0
75	6.3	6.3
100	5.0	5.0
200	5.0	5.0
300	5.0	5.0
400	5.0	5.0
500	4.3	4.3

RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

THDA has issued \$1,087,205,000 total original principal amount of bonds under the General Resolution, of which \$940,035,000 (unaudited) were outstanding as of July 31, 2016, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of July 31, 2016 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$146,910,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	93,225,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	128,580,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	135,140,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	143,660,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	167,520,000	3.25
Issue 2016-1	May 18, 2016	<u>125,000,000</u>	<u>125,000,000</u>	2.68
TOTAL		<u>\$1,087,205,000</u>	<u>\$940,035,000</u>	

(1) Bond yield.

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Origination Experience

THDA's experience from May 30, 2013, to July 31, 2016, regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

Issue of Bonds	Lendable Proceeds⁽²⁾	Program Loans Financed⁽³⁾ as of July 31, 2016		Weighted Average Interest Rate⁽⁴⁾
		Amount	%	
Issue 2013-1	\$135,268,395	\$135,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	<u>92,340,000</u>	<u>72,206,611</u>	78.20	4.42
TOTAL	<u>\$803,408,875</u>	<u>\$783,275,326</u>		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included. All lendable proceeds with respect to the Issue 2016-1 Bonds were committed as of July 25, 2016.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on July 25, 2016, and as of September 1, 2016, THDA has committed a total principal amount of approximately \$22,822,000 of Program Loans that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. The THDA Household Income Limits range from \$56,100 to \$95,900 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2016-2 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance. While the Issue 2016-2 Supplemental Resolution provides that all participations in Program Loans to be financed with proceeds of the Offered Bonds shall be

first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date, including the Transferred Program Loans, were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. Transferred Program Loans financed prior to September 30, 2013, are Great Rate, Great Advantage, Great Start or Homeownership for the Brave Program Loans. On and after October 1, 2013, the THDA primary loan program includes Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. On and after October 1, 2013, THDA provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below.

Although THDA is authorized to implement a program for the origination of conventional mortgage loans to be pooled into mortgage-backed securities guaranteed as to timely payment of principal and interest by the Federal National Mortgage Association ("Fannie Mae" and "Fannie Mae Securities"), THDA does not currently expect to move forward with such a program.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 3.99%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans. From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans in a principal amount equal to 4% of the purchase price of the property purchased. Since October 1, 2014, Great Choice Plus Loans are 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, each Great Choice Plus loan will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

The THDA Board of Directors is expected to consider additional changes to Great Choice Plus Loans at its meeting on September 20, 2016, that would, among other things, extend the term from fifteen years to thirty years, apply forgiveness at the end of the thirty year term, and increase the principal amount available from 4% to 5% of the purchase price of the property purchased.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA and will not be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will

not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable. As of June 30, 2016 (unaudited), 89 New Start Program Loans, with an aggregate principal balance of approximately \$4,462,537, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction. As of June 30, 2016 (unaudited), 208 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$23,294,791, were outstanding under the General Resolution. Eligible borrowers will also be eligible for Great Choice Plus loans. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became Transferred Program Loans allocable to the Issue 2013-1 Bonds under the General Resolution. As of June 30, 2016 (unaudited), 202 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$12,354,063, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers who had loan applications dated on or before September 30, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds.

An amount equal to 4% of the loan amount was made available as a grant to borrowers for downpayment and closing cost assistance in connection with Great Start Program Loans. An amount equal to 2% of the loan amount was made available as a grant to borrowers for downpayment and closing cost assistance in connection with Great Advantage Program Loans. THDA financed this downpayment and closing cost assistance from excess revenues available outside the General Resolution and retains a portion of the interest collected on Great Start Program Loans and Great Advantage Program Loans to reimburse itself for the amount of this assistance.

As of June 30, 2016, 1,875 Great Rate, 41 Great Advantage, and 1,788 Great Start Program Loans, with an aggregate principal balance of approximately \$319,809,283, were outstanding under the General Resolution.

Although Transferred Program Loans include Great Rate or Great Start Program Loans, THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of June 30, 2016 (unaudited), 10,085 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$935,160,916 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 310.44 months and an approximate weighted average interest rate of 4.42%.

All tables under this heading, "Residential Finance Program Portfolio Data", include data about 1974 General Resolution Transferred Loans, but do not include data about Transferred Program Loans. For more information about 1974 General Resolution Transferred Loans see "RESIDENTIAL FINANCE PROGRAM LOANS-Description of Residential Finance Program Loans-Transfer of Assets". For more information about Transferred Program Loans see "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS".

Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of June 30, 2016 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured	8,637	\$830,803,179	85.64%	88.84%
VA Guaranteed	228	20,789,075	2.26	2.22
Privately Insured	261	19,624,438	2.59	2.10
USDA/RD Guaranteed	626	42,649,354	6.21	4.56
Uninsured ⁽²⁾	<u>333</u>	<u>21,294,870</u>	<u>3.30</u>	<u>2.28</u>
TOTAL	<u>10,085</u>	<u>\$935,160,916⁽⁴⁾</u>	<u>100.00%⁽⁴⁾</u>	<u>100.00%⁽⁴⁾</u>

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution upon the refunding of other THDA obligations, including certain of the Transferred Program Loans, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are

incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

As of June 30, 2016 (unaudited), 261⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$19,624,438 were outstanding under the General Resolution. As of June 30, 2016 (unaudited), THDA had the following information regarding the private mortgage insurers for 198 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance</u> ⁽³⁾	<u>Percent of Total Number of Program Loans</u> ⁽³⁾	<u>Percent of Total Outstanding Balance of Program Loans</u> ⁽³⁾
Commonwealth/CMAC	3	\$ 86,690	0.03%	0.01%
Genworth Mortgage Insurance Corp. (GE)	67	5,766,118	0.66	0.62
MGIC	61	5,119,705	0.60	0.55
PMI Mortgage Insurance Co. ⁽²⁾	2	149,839	0.02	0.02
Radian Guaranty Inc.	6	343,679	0.06	0.04
Republic Mortgage Insurance Corporation	22	1,316,997	0.22	0.14
Triad Guaranty Insurance Corporation ⁽²⁾	9	630,480	0.09	0.07
United Guaranty Residential Insurance Co.	<u>28</u>	<u>2,321,390</u>	<u>0.28</u>	<u>0.25</u>
TOTAL	<u>198</u>	<u>\$15,734,899</u> ⁽⁴⁾	1.96% ⁽⁴⁾	1.68% ⁽⁴⁾

(1) The private mortgage insurer is not identified with respect to 63 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA compiled data with respect to individual private mortgage insurance providers.

(2) In accordance with judicial actions instituted by their respective state insurance regulators, PMI Mortgage Insurance Co. and Triad Guaranty Insurance Corporation currently are paying claims at the rates of \$.70 per \$1.00 and \$.75 per \$1.00, respectively.

(3) Rounded figures.

(4) Rounded total.

Program Loan Interest Rates

The following table summarizes, as of June 30, 2016 (unaudited), the interest rates of the outstanding Program Loans:

<u>Mortgage Rates (%)</u>	<u>Number of Program Loans</u> ⁽¹⁾	<u>Outstanding Balance</u> ⁽²⁾	<u>Percent of Total Number of Program Loans</u> ⁽²⁾	<u>Percent of Total Outstanding Balance</u> ⁽²⁾
0.00-2.99	154	\$ 7,311,937	1.53%	0.78%
3.00-3.99	2,873	333,283,334	28.49	35.64
4.00-4.49	3,078	362,691,692	30.52	38.78
4.50-4.99	675	51,853,879	6.69	5.54
5.00-5.49	742	59,372,886	7.36	6.35
5.50-5.99	1,195	59,982,569	11.85	6.41
6.00-6.49	333	25,533,113	3.30	2.73
6.50-6.99	517	21,780,273	5.13	2.33
7.00-7.49	220	6,364,988	2.18	0.68
7.50-7.99	214	4,890,575	2.12	0.52
8.00-8.49	79	2,020,626	0.78	0.22
8.50-9.49	4	66,252	0.04	0.01
9.50-12.00	<u>1</u>	<u>8,793</u>	<u>0.01</u>	<u>0.00</u>
TOTAL	<u>10,085</u>	<u>\$935,160,916</u> ⁽³⁾	100.00% ⁽³⁾	100.00% ⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have passed with no payment received by the last business day of the month in which the second payment was due are considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

The financial institutions who service Program Loans manage delinquencies by working with borrowers in an attempt to avoid defaults and by sending payment requests to borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

Delinquencies and Foreclosures as of June 30, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.79%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2016				
Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	154	\$14,078,803	1.78%	1.32% ⁽⁴⁾
VA Guaranteed	4	425,812	1.75	0.85
Privately Insured	1	60,180	0.38	0.41 ⁽⁵⁾
USDA/RD Guaranteed.....	11	730,297	1.76	⁽⁶⁾
Uninsured.....	<u>11</u>	<u>599,947</u>	3.30	⁽⁶⁾
TOTAL	<u>181</u>	<u>\$15,895,039⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.48%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2016

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	392	\$30,675,684	4.54%	2.19% ⁽⁴⁾
VA Guaranteed	14	1,029,600	6.14	1.54
Privately Insured	11	793,504	4.21	0.71 ⁽⁵⁾
USDA/RD Guaranteed.....	27	2,046,327	4.31	(6)
Uninsured.....	<u>8</u>	<u>475,352</u>	2.40	(6)
TOTAL	<u>452</u>	<u>\$35,020,467⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.39%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of June 30, 2016 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2016, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2016

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	37	\$3,457,063	0.43%	0.73% ⁽⁴⁾
VA Guaranteed	2	98,457	0.88	0.84
Privately Insured	0	0	0.00	0.30 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	(6)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(6)
TOTAL	<u>39</u>	<u>\$3,555,520⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS

General

As of July 31, 2016, the Transferred Program Loans have an approximate weighted average maturity of 249.66 months and a weighted average interest rate of 5.54% per annum. Average prepayment rate information for the Transferred Program Loans is discussed in “DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS – Prepayment Experience of Transferred Program Loans” below. It is anticipated that the characteristics of the pool of Transferred Program Loans will be substantially similar to the loans described below (such information below is as of July 31, 2016; the Transferred Program Loans will not be allocable to the Offered Bonds until October 18, 2016, and Transferred Program Loan characteristics may change from July 31, 2016, to October 18, 2016).

Transferred Program Loans by Loan Type

<u>Type of Mortgage</u>	<u>Number</u>	<u>Principal Amount</u> ⁽³⁾	<u>% of Transferred Principal Amount</u>
FHA Insured	105	\$8,607,232	31.00%
VA Guaranteed	6	586,902	2.11
Privately Insured ⁽¹⁾	165	14,408,447	51.89
USDA/RD Guaranteed	36	2,913,494	10.49
Uninsured ⁽²⁾	<u>19</u>	<u>1,253,063</u>	<u>4.51</u>
TOTAL	<u>331</u>	<u>\$27,769,137</u> ⁽⁴⁾	<u>100.00%</u>

(1) This includes Program Loans for which private mortgage insurance was in place at the time of the closing of the respective Program Loan.

(2) Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, and Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Transferred Program Loans

Each private mortgage insurer insuring conventional, privately insured THDA Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least ‘AA’ by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured THDA Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least ‘AA’ by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of July 31, 2016 (unaudited), 165⁽¹⁾ privately insured Transferred Program Loans having an aggregate principal balance of approximately \$14,408,447 were outstanding. As of July 31, 2016 (unaudited), THDA had the following information regarding the private mortgage insurers for 161 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance</u> ⁽²⁾	<u>Percent of Total Number of Program Loans</u> ⁽²⁾	<u>Percent of Total Outstanding Balance of Program Loans</u> ⁽²⁾
Genworth Mortgage Insurance Corp. (GE)	58	\$ 5,504,430	17.52%	19.82%
MGIC	63	5,313,035	19.03	19.13
Republic Mortgage Insurance Corporation	1	22,175	0.30	0.08
United Guaranty Residential Insurance Co.	<u>39</u>	<u>3,188,422</u>	<u>11.78</u>	<u>11.48</u>
TOTAL	<u>161</u>	<u>\$14,028,063</u> ⁽³⁾	48.64% ⁽³⁾	50.52% ⁽³⁾

(1) The private mortgage insurer is not identified with respect to 4 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA compiled data with respect to individual private mortgage insurance providers.

(2) Rounded figures.

(3) Rounded total.

Prepayment Experience of Transferred Program Loans

The Transferred Program Loans are composed of mortgage loans originally allocable to the Prior Bonds. The table set forth below lists the actual average prepayment rate (principal only) experience as a percentage of the PSA Prepayment Model of the mortgage loans allocable to the Prior Bonds for the 3 month, 6 month and 12 month periods ended on July 31, 2016, based on principal prepayment data available to THDA.

<u>Issue</u>	<u>3 Months</u>	<u>6 Months</u>	<u>12 Months</u>	<u>Since Inception</u>	<u>Weighted Average Interest Rate</u>
2007-1	252%	255%	262%	360%	5.54%

Delinquency Information for the Transferred Program Loans

The overall delinquency rate for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.81%, based on a total of 331 Transferred Program Loans as of July 31, 2016 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due as of July 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JULY 31, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA</u> ⁽³⁾
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	4	\$288,764	3.81%	1.32% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.85
Privately Insured	1	71,245	0.61	0.41 ⁽⁵⁾
USDA/RD Guaranteed	1	72,825	2.78	⁽⁶⁾
Uninsured	<u>0</u>	<u>0</u>	0.00	⁽⁶⁾
TOTAL	<u>6</u>	<u>\$432,834</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate for the Transferred Program Loans that were ninety (90) days past due was 10.57%, based on a total of 331 Transferred Program Loans as of July 31, 2016 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were ninety (90) days past due as of July 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JULY 31, 2016

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	17	\$1,516,603	16.19%	2.19% ⁽⁴⁾
VA Guaranteed	0	0	0.00	1.54
Privately Insured	13	998,097	7.88	0.71 ⁽⁵⁾
USDA/RD Guaranteed.....	2	141,877	5.56	(6)
Uninsured.....	<u>3</u>	<u>185,631</u>	15.79	(6)
TOTAL	<u>35</u>	<u>\$2,842,207⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The rate of Transferred Program Loans in foreclosure was 0.60%, based on a total of 331 Transferred Program Loans as of July 31, 2016 (unaudited).

The foreclosure rate by loan type for the Transferred Program Loans in foreclosure as of July 31, 2016 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA, by loan type, for the quarter ending June 30, 2016, are shown in the following table:

IN FORECLOSURE AS OF JULY 31, 2016

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	2	\$121,130	1.90%	0.73% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.84
Privately Insured	0	0	0.00	0.30 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	(6)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(6)
TOTAL	<u>2</u>	<u>\$121,130⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the three most recent years and for the nine months ended March 31, 2016, and March 31, 2015. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2015, 2014, and 2013, and from unaudited financial information of THDA for the nine months ended March 31, 2016 and March 31, 2015.

	Nine Months Ended March 31 (Unaudited)		Year Ended June 30 (Audited)		
Residential Finance Bond Group	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES:					
Interest on Mortgages	\$ 26,955	\$ 18,210	\$ 25,393	\$ 13,518	\$ 222
Investment Income:					
Interest	1,552	1,359	1,866	335	10
Net Increase (decrease) in the Fair Value of Investments	(180)	249	(552)	(146)	(83)
Fees and Other Income	646	29	160	-	76
	<u>28,973</u>	<u>19,847</u>	<u>26,867</u>	<u>13,707</u>	<u>225</u>
EXPENSES:					
Interest	17,893	12,194	17,058	9,087	551
Issuance Cost	1,303	1,189	2,343	2,167	1,679
Mortgage Servicing Fees	2,156	1,493	2,048	980	18
Other	917	688	1,001	239	1
	<u>22,269</u>	<u>15,564</u>	<u>22,450</u>	<u>12,473</u>	<u>2,249</u>
Excess of Revenues over Expenses	6,704	4,283	4,417	1,234	(2,024)
Net Position at beginning of period	101,055	105,707	105,707	(68,279)	-
Other Transfers	39,941	18,313	(9,069)	172,752	(66,255)
Net Position at end of period	<u>\$ 147,700</u>	<u>\$ 128,303</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>	<u>\$ (68,279) ⁽¹⁾</u>

⁽¹⁾ On May 30, 2013 THDA issued its Issue 2013-1 Bonds under the General Resolution. Proceeds of the Issue 2013-1 Bonds in an aggregate principal amount of \$75,905,000 were applied to the refunding of THDA's Issue 2003-A Bonds under the 1974 General Resolution and THDA's Issue 2004-1 Bonds under the 1985 General Resolution. While the Issue 2013-1 Bonds were issued on May 30, 2013, the assets allocable to the Issue 2003-A and the Issue 2004-1 Bonds in an aggregate amount of approximately \$99,855,200 did not transfer to the General Resolution until July 1, 2013, the date of the redemption of such bonds. As a result of such transfer, the net position of the General Resolution as of July 1, 2013, was approximately \$31,576,000 (unaudited).

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of July 31, 2016 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u>	<u>Long Term⁽²⁾</u>
	<u>Amount</u>	<u>Amount</u>
Federal Home Loan Bank Notes	\$ 35,768,282	\$ 17,630,803
Federal Home Loan Mortgage Corporation Notes	7,006,097	14,529,300
Fannie Mae Notes	0	25,540,720
Financing Corporation Bonds	0	2,615,163
United States Treasury Bonds.....	359,273	0
TOTAL.....	<u>\$ 43,133,652</u>	<u>\$ 60,315,986</u>

As of July 31, 2016 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u>	<u>Long Term⁽²⁾</u>
	<u>Amount</u>	<u>Amount</u>
Federal Home Loan Bank Notes	\$ 0	\$ 13,331,360
Federal Home Loan Mortgage Corporation Notes	0	10,469,928
Fannie Mae Notes	0	10,641,350
TOTAL.....	<u>\$ 0</u>	<u>\$ 34,442,638</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2018.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of July 31, 2016 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$1,822,285,063, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Brian Bills, Chairman	June 30, 2017	Sr. Vice President, Residential Mortgage Lending SunTrust Mortgage, Inc., Knoxville, TN
Kim Grant Brown	June 30, 2019	Owner, Grant & Company Collierville, TN
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Kendra Cooke	June 30, 2019	Broker, Cooke Realty Partners/Bob Parks Realty Brentwood, TN
Tre Hargett ⁽¹⁾	January, 2017	Secretary of State
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
Ronald K. Jones	June 30, 2020	Executive Director, Trevecca Towers Nashville
David H. Lillard, Jr. ⁽¹⁾	January, 2017	State Treasurer
Larry Martin ⁽¹⁾	(2)	Commissioner, Department of Finance and Administration
Todd Skelton ⁽¹⁾	(2)	Deputy Counsel to the Governor
James Sattler	June 30, 2019	Vice Chair, Chattanooga Housing Authority Board of Commissioners, Chattanooga, TN
Pieter J. van Vuuren	June 30, 2019	President & CEO, First National Bank of McMinnville McMinnville, TN
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Justin Wilson ⁽¹⁾	January, 2017	Comptroller of the Treasury
Daisy Fields	(3)	Gallatin, TN

(1) Ex officio member.

(2) Serves at pleasure of the Governor.

(3) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 221 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Servicing since February 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Administrative Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010).

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Connors & Berry (currently Bradley Arant Boult Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999), Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the "State") amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

As of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ending June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees.

The TCRS covers three large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 57,929 active members in TCRS in the state and higher education employee group at June 30, 2016. This total includes 238 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

The most recent actuarial valuation was completed as of June 30, 2015 and established the employer contribution rates for the period July 1, 2016 through June 30, 2017. The next actuarial valuation will be as of June 30, 2016 and will establish employer contribution rates for the period July 1, 2017 through June 30, 2018. The July 1, 2013 actuarial valuation established the employer contribution rates for the two year period beginning July 1, 2014 and ending June 30, 2016.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age 60 or 30 years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute at 5% of salary to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age 65 or the rule of 90 (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan,

requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute 15.03% of salary for the period July 1, 2014 through June 30, 2016 while employees do not contribute to the plan. The July 1, 2013 actuarial valuation established the 15.03% employer contribution rate for this period. The June 30, 2015 actuarial valuation established the employer contribution rate of 15.02% that is applicable for the period July 1, 2016 through June 30, 2017.

An actuarial valuation was performed as of June 30, 2015 to determine the TCRS financial position in order to provide information related to new Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2015, the net pension liability for the state and higher education employee group based on the market value of assets was \$1.3 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 91.26%.

Actuarial Data for Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, the overall 4% employer contribution rate for the period July 1, 2014 - June 30, 2016, consists of 3.87% for general employees, with the employer rate for judicial and public safety employees being higher at 7.00% and 4.62%, respectively. The employer contribution rate for general employees of 3.87% consists of 2.00% for the ADC and 1.87% for the stabilization reserve.

An actuarial valuation at June 30, 2015 established that the employer overall rate will remain at the minimum statutory level of 4%. For the period July 1, 2015 - June 30, 2017, the employer rate for general employees will be 3.94% while the employer rate for judicial and public safety employees will be 6.27% and 4.69%, respectively. The employer contribution rate for general employees of 3.94% consists of 1.13% for the ADC and 2.81% for the stabilization reserve.

THDA Employer Contributions to TCRS

For THDA, the employer contribution rate, stated as a percentage of salary, for the period beginning July 1, 2014, and ending June 30, 2016, is 15.03% based on the actuarial valuation performed as of July 1, 2013, for employees hired before July 1, 2014. For employees first hired after June 30, 2014, the employer rate is 8.87% (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions to TCRS are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	Percentage of THDA Budget
2017 ⁽¹⁾	15.03/9% ⁽²⁾	\$16,398,800 ⁽¹⁾⁽³⁾	\$2,340,940	2.03%
2016	15.03/9 ⁽²⁾	11,965,554	1,581,407	1.30
2015	15.03/9 ⁽²⁾	11,569,902	1,673,881	1.19
2014	15.03/9 ⁽²⁾	11,721,300	1,761,711	1.19
2013	15.03	11,315,872	1,692,847	1.26
2012	14.91	11,005,204	1,632,095	1.36
2011	14.91	10,593,944	1,585,654	1.25
2010	13.02	9,956,646	1,295,272	1.03
2009	13.02	9,267,262	1,201,303	0.98
2008	13.66	9,602,067	1,297,298	1.02
2007	13.58	8,644,241	1,175,459	0.96

(1) Estimated

(2) Varies depending on plan the employee is enrolled in.

(3) The increase in "Total Salary of THDA Employees" from the actual amount for the fiscal year ending June 30, 2016, to the estimated amount for the fiscal year ending June 30, 2017, is due to the additional salaries for approximately thirty-eight (38) positions THDA expects to fill in connection with the servicing activities THDA expects to undertake later in 2017.

For the fiscal year ending June 30, 2016, the salary of THDA employees totaled \$11,965,554, which represents 0.45% of the \$2.677 billion of salary for all state and higher education employees in TCRS.

It is anticipated that there will be upward pressure on the employer contribution rate in the Closed State and Higher Education Employee Pension Plan in future actuarial valuations as deferred investment losses that have been actuarially smoothed are recognized over the next ten years.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

The state provides an additional voluntary defined contribution plan to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

General Information about the 401(k) and 457 Defined Contribution Plans

Employee contribution limits to the 401(k) plan are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

For the fiscal year ended June 30, 2015, 173 THDA employees made contributions to the 401(k) plan and 10 THDA employees made contributions to the 457 plan. THDA made employer contributions to the 401(k) plan that totaled \$86,335 while THDA employees contributed a total of \$243,815 to the 401(k) plan and the 457 plan.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 43 and 45) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2015, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used a projected unit credit actuarial cost method, indicates that for the fiscal year ended June 30, 2016, the total unfunded actuarial liability of THDA is approximately \$2,923,000 and the annual required contribution for THDA is approximately \$341,000. The annual required contribution consists of the normal cost (the portion of the actuarial present value of OPEB benefits which is allocated to a valuation year by the actuarial cost method) and an amortization of the unfunded actuarial liability. The report may be reviewed at <http://www.tennessee.gov/finance/act/OPEB.html>. The State is not currently funding any actuarially determined OPEB liability, and will continue to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for the fiscal year. The State will charge THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the

various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that (i) interest on the Issue 2016-2A Bonds will be treated as a preference item for purposes of calculating the alternative minimum tax imposed on individuals and corporations and (ii) interest on the Issue 2016-2B Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based

upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a "Premium Bond") over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

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

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, THDA, in the Issue 2016-2 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2016-2 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MRSB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2016-2 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a

change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2016-2 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2016-2 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2016-2 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MSRB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2015, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the nine months ended March 31, 2016. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

Citigroup Global Markets Inc., RBC Capital Markets, LLC, Raymond James & Associates, Inc., FTN Financial Capital Markets, J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and J.J.B. Hilliard, W.L. Lyons, LLC (collectively, the "Underwriters") have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$759,426.17. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

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

Citigroup, an underwriter of the Offered Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Offered Bonds.

FTN Financial Capital Markets is a division of First Tennessee Bank National Association and FTB Advisors, Inc. is a wholly-owned subsidiary of First Tennessee Bank National Association. FTN Financial Capital Markets has entered into a distribution agreement with FTB Advisors, Inc. for the distribution of the Offered Bonds at the original issue prices. Such arrangement generally provides that FTN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with FTB Advisors, Inc.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

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

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference

to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Brian Bills

Chairman

/s/ Ralph M. Perrey

Executive Director



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
 DEPARTMENT OF AUDIT
 DIVISION OF STATE AUDIT

SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
 505 DEADERICK STREET
 NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
 FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
 Members of the General Assembly
 Members of the Board of Directors
 Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the Notes, the agency implemented Governmental Accounting Standards Board Statement (GASBS) 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASBS 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the other postemployment benefits schedule of funding progress, schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and schedule of contributions to the State and Higher Education Employee Retirement Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2015, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA
Director
December 23, 2015

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the years ended June 30, 2015, with comparative information presented for the fiscal year ended June 30, 2014. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2015, THDA has originated over 115,000 single-family mortgage loans in its 42-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

More recently, THDA has administered programs under the American Recovery and Reinvestment Act of 2009 (ARRA), including the Homeless Prevention and Rapid Re-Housing Program (HPRP), the Tax Credit Assistance Program (TCAP), the Neighborhood Stabilization Program (NSP), and a Low Income Housing Tax Credit exchange program under Section 1602 of the Act.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated 13-23-105*). This board meets regularly on a bi-monthly basis; however, some committees may meet more often as situations dictate.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discreetly presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <http://www.tn.gov/finance/article/fa-accfin-cafr>.

During fiscal year 2015, THDA implemented accounting standard GASB Statement 68, Accounting and Financial Reporting for Pensions. The Statement requires the reporting of an organization's net pension liability on the face of the financial statements. Implementation of this Statement resulted in a revision of THDA's Net Position as of July 1, 2014, which has been reported as a Prior Period Adjustment.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2015

- Total assets increased by \$1.9 million, or 0.1%.
- Deferred outflows of resources increased \$1.4 million, or 112.2%.
- Total liabilities increased by \$11.6 million, or 0.6%.
- Net position was \$514.4 million. This is a decrease of \$12.5 million, or 2.4%, from fiscal year 2014.
- Cash and cash equivalents increased by \$27.6 million, or 10.1%.
- Total investments increased by \$3.3 million, or 1.3%.
- Bonds payable decreased by \$5.1 million, or 0.3%.
- Deferred inflows of resources increased \$4.3 million. The amount of deferred inflows of resources as reported on the FY 2014 financial statements was \$0.
- THDA originated \$250.8 million in new loans, which is an increase of \$23.5 million, or 10.3%, from the prior year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

FINANCIAL ANALYSIS OF THE AGENCY

Net Position. The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	<u>2015</u>	<u>2014</u>
Current assets	\$ 442,792	\$ 400,662
Capital assets	512	626
Other noncurrent assets	<u>2,123,193</u>	<u>2,163,308</u>
Total assets	<u>2,566,497</u>	<u>2,564,596</u>
Deferred outflows of resources	<u>2,653</u>	<u>1,250</u>
Current liabilities	191,375	171,907
Noncurrent liabilities	<u>1,859,097</u>	<u>1,867,011</u>
Total liabilities	<u>2,050,472</u>	<u>2,038,918</u>
Deferred inflows of resources	4,271	-
Invested in capital assets	512	626
Restricted net position	441,196	449,905
Unrestricted net position	<u>72,699</u>	<u>76,397</u>
Total net position	<u><u>\$ 514,407</u></u>	<u><u>\$ 526,928</u></u>

2015 to 2014

- THDA's total net position decreased by \$12.5 million, or 2.4%, from \$526.9 million at June 30, 2014 to \$514.4 million at June 30, 2015. This change resulted from a decrease in net position of \$6.8 million for the cumulative effect of a change in accounting principle caused by the implementation of GASB 68, operating income of \$9.7 million, and non-operating expenses of \$15.4 million.
- First and Second mortgage loans receivable decreased by \$33.5 million or 1.7% from \$1,966.3 million on June 30, 2014 to \$1,932.8 million on June 30, 2015. During FY 2015, single-family mortgage loan originations increased by \$23.5 million or 10.3% from \$227.3 million at June 30, 2014 to \$250.8 million at June 30, 2015. Mortgage loan payoffs increased by \$38.4 million or 26.0% from \$147.6 million at June 30, 2014 to \$186.0 million at June 30, 2015. Mortgage loan repayments increased \$2.3 million, or 4.5%, from \$51.2 million at June 30, 2014 to \$53.5 million at June 30, 2015. In addition, THDA recognized an allowance for forgivable second mortgages of \$2.9 million, whereas no such allowance was recorded at June 30, 2014.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

- Total liabilities increased \$11.6 million or 0.6% from \$2,038.9 million on June 30, 2014 to \$2,050.5 million on June 30, 2015. The increase is primarily due to an increase in accounts payable at June 30, 2015 as compared to June 30, 2014, as well as reporting a pension liability as a result of implementing GASB 68.

Changes in Net Position. The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	<u>2015</u>	<u>2014</u>
Operating revenues		
Mortgage interest income	\$ 96,999	\$ 102,108
Investment income	6,535	6,346
Other	16,512	19,027
Total operating revenues	<u>120,046</u>	<u>127,481</u>
Operating expenses		
Interest expense	66,389	70,390
Other	43,932	42,941
Total operating expenses	<u>110,321</u>	<u>113,331</u>
Operating income	<u>9,725</u>	<u>14,150</u>
Nonoperating revenues (expenses)		
Grant revenues	307,012	295,814
Grant expenses	<u>(322,465)</u>	<u>(309,503)</u>
Total nonoperating revenues (expenses)	<u>(15,453)</u>	<u>(13,689)</u>
Change in net position	<u>\$ (5,728)</u>	<u>\$ 461</u>

2015 to 2014

Total operating revenues decreased \$7.4 million, or 5.8%, from \$127.5 million for the year ended June 30, 2014, to \$120.1 million for the year ended June 30, 2015. The primary reasons for this decrease are as follows:

- Mortgage interest income decreased \$5.1 million, or 5.0%, from \$102.1 million in 2014 to \$97.0 million in 2015. This is due to new mortgage loan originations having lower interest rates than those associated with mortgage loan repayments.
- Total operating expenses decreased \$3.0 million, or 2.7%, from \$113.3 million in fiscal year 2014 to \$110.3 million in fiscal year 2015. A leading factor in this decrease is a decrease in interest expense, due to the use of mortgage loan prepayments to redeem

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

bonds in advance of their maturities, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

DEBT ACTIVITY

Bonds outstanding at June 30 were as follows (expressed in thousands):

	<u>2015</u>	<u>2014</u>
Bonds payable	\$ 1,979,170	\$ 1,984,298

Year Ended June 30, 2015

Total bonds and notes payable decreased \$5.1 million, or 0.3%, due primarily to an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling \$477.8 million, with activity arising from three bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$213.4 million of outstanding bonds into new bond originations with lower interest rates.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard & Poor's Ratings Services (S&P), a division of the The McGraw-Hill Companies, Inc. has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during FY 2015 or FY 2014.

Debt Limits

In accordance with *Tennessee Code Annotated*, 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

GRANT PROGRAMS

During FY 2007 through FY 2009, the General Assembly has appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors has allocated additional THDA funds for grants. These funds established a grant program that has been titled by the THDA as the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

	FY 2015	FY 2014	FY 2013	FY 2012 and Prior	Total
Funding Sources:					
THDA	\$ 7,500,000	\$ 9,300,000	\$ 6,500,000	\$ 36,500,000	\$ 59,800,000
State Appropriation	-	-	-	4,350,000	4,350,000
Totals	\$ 7,500,000	\$ 9,300,000	\$ 6,500,000	\$ 40,850,000	\$ 64,150,000
Approved Uses:					
Rural repair program (USDA)	\$ 700,000	\$ 700,000	\$ 700,000	\$ 4,200,000	\$ 6,300,000
Ramp Programs & Hsg Modification	150,000	150,000	150,000	900,000	1,350,000
Emergency Repairs	1,800,000	2,000,000	-	12,000,000	15,800,000
Competitive Grants	2,850,000	3,850,000	5,150,000	22,950,000	34,800,000
Rebuild & Recover	500,000	2,300,000	-	-	2,800,000
Other Grants	1,500,000	300,000	500,000	800,000	3,100,000
Totals	\$ 7,500,000	\$ 9,300,000	\$ 6,500,000	\$ 40,850,000	\$ 64,150,000

In addition to the above funding, local grants could produce an additional \$4 million or more in funding each year. Also, the Emergency Repairs for the Elderly program and the Competitive Grants have a 50% grantee match requirement.

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the *Great Choice* and the *Great Choice Plus* loan programs were introduced and the *Great Rate*, *Great Advantage* and *Great Start* loan programs were eliminated. The *Great Choice* loan program offers THDA the opportunity to offer a more competitive interest rate on its 30 year fixed rate mortgage product while still offering down payment assistance with the addition of the *Great Choice Plus* loan program which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the *Great Choice Plus* loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15.

A special interest rate reduction on *Great Choice* loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as "*Homeownership for the Brave*", provides a 0.5% rate reduction on the current interest rate for *Great Choice* loans. In addition to the rate reduction, "*Homeownership for the Brave*" applicants are eligible for optional down payment and closing cost assistance through the *Great Choice Plus* second mortgage loan at a 0% interest rate.

All loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages (ARMs), interest-only mortgages, "buy-down" loans, mortgages with a future lump-sum payment due (balloon-type mortgage), or with other similar mortgage terms. THDA does not make or purchase "sub-prime" mortgage loans.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers, who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor's Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at <http://www.thda.org/index.aspx?NID=8>.

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2015, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

<u>Loan Status</u>	<u>Total Number of Loans Serviced</u>	<u>Number of Loans in Status</u>	<u>Principal Amount</u>	<u>Percentage</u>
60-89 Days Past Due	24,101	538	\$ 42,001,519	2.23%
90+ Days Past Due	24,101	1,296	105,118,036	5.38%
In Foreclosure	24,101	338	24,993,487	1.40%

Note: Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

ECONOMIC FACTORS

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, THDA uses the one-, three-, and five-year Constant Maturity Treasury (CMT) rates as established by the United States Treasury.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

The continuation of relatively low interest rates from a historic perspective increased the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Trent Ridley, Chief Financial Officer at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2015
(Expressed in Thousands)

	<u>2015</u>
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 275,510
Investments (Note 2)	42,603
Receivables:	
Accounts	29,597
Interest	13,556
First mortgage loans	53,465
Due from federal government	28,051
Prepaid expenses	10
Total current assets	<u>442,792</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (Note 2)	25,478
Investments (Note 2)	178,624
Investment interest receivable	1,573
Investments (Note 2)	35,056
First mortgage loans receivable	1,869,777
Second mortgage loans receivable	12,505
Allowance for forgivable second mortgages	(2,904)
Advance to local government	3,084
Capital assets:	
Furniture and equipment	1,561
Less accumulated depreciation	(1,049)
Total noncurrent assets	<u>2,123,705</u>
Total assets	<u>2,566,497</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on refundings	981
Deferred outflows related to pensions (Note 6)	1,672
Total deferred outflows of resources	<u>2,653</u>
LIABILITIES	
Current liabilities:	
Accounts payable	11,444
Accrued payroll and related liabilities	587
Compensated absences	585
Due to primary government	71
Interest payable	32,325
Escrow deposits	76
Prepayments on mortgage loans	1,165
Due to federal government	14,667
Bonds payable (Note 4)	130,455
Total current liabilities	<u>191,375</u>
Noncurrent liabilities:	
Bonds payable (Note 4)	1,848,715
Compensated absences	622
Net pension liability (Note 6)	2,964
Net OPEB obligation (Note 10)	1,516
Escrow deposits	2,477
Arbitrage rebate payable	2,803
Total noncurrent liabilities	<u>1,859,097</u>
Total liabilities	<u>2,050,472</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions (Note 6)	4,271
Total deferred inflows of resources	<u>4,271</u>
NET POSITION	
Net investment in capital assets	512
Restricted for single family bond programs (Note 5 and Note 8)	426,741
Restricted for grant programs (Note 5)	11,302
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,153
Unrestricted (Note 8)	72,699
Total net position	<u>\$ 514,407</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	<u>2015</u>
OPERATING REVENUES	
Mortgage interest income	\$ 96,999
Investment income:	
Interest	10,413
Net (decrease) in the fair value of investments	(3,878)
Federal grant administration fees	14,920
Fees and other income	<u>1,592</u>
Total operating revenues	<u>120,046</u>
OPERATING EXPENSES	
Salaries and benefits	15,147
Contractual services	6,478
Materials and supplies	657
Rentals and insurance	30
Other administrative expenses	476
Other program expenses	10,185
Interest expense	66,389
Mortgage service fees	7,076
Issuance costs	3,538
Depreciation	<u>345</u>
Total operating expenses	<u>110,321</u>
Operating income	<u>9,725</u>
NONOPERATING REVENUES (EXPENSES)	
Federal grants revenue	307,010
Other grants revenue	2
Federal grants expenses	(307,165)
Local grants expenses	<u>(15,300)</u>
Total nonoperating revenues (expenses)	<u>(15,453)</u>
Change in net position	<u>(5,728)</u>
Total net position, July 1	526,928
Cumulative effect of a change in accounting principle (Note 3)	(6,793)
Total net position, July 1, as restated	<u>520,135</u>
Total net position, June 30	<u>\$ 514,407</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	<u>2015</u>
Cash flows from operating activities:	
Receipts from customers	\$ 380,448
Receipts from federal government	14,708
Other miscellaneous receipts	1,592
Acquisition of mortgage loans	(250,764)
Payments to service mortgages	(5,914)
Payments to suppliers	(14,245)
Payments to or for employees	<u>(16,603)</u>
Net cash provided by operating activities	<u>109,222</u>
Cash flows from non-capital financing activities:	
Operating grants received	309,194
Proceeds from sale of bonds	477,824
Operating grants paid	(315,029)
Cost of issuance paid	(3,538)
Principal payments	(477,870)
Interest paid	<u>(75,380)</u>
Net cash used by non-capital financing activities	<u>(84,799)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(231)</u>
Net cash used by capital and related financing activities	<u>(231)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	124,834
Purchases of investments	(132,012)
Investment interest received	10,548
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	<u>23</u>
Net cash provided by investing activities	<u>3,393</u>
Net increase in cash and cash equivalents	27,585
Cash and cash equivalents, July 1	<u>273,403</u>
Cash and cash equivalents, June 30	\$ <u><u>300,988</u></u>

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>9,725</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	345
Pension expense	442
Changes in assets and liabilities:	
Decrease in accounts receivable	3,344
Decrease in mortgage interest receivable	321
(Increase) in deferred pension outflows	(1,672)
Decrease in mortgage loans receivable	33,435
(Increase) in due from federal government	(212)
(Decrease) in accounts payable	(1,546)
Increase in accrued payroll / compensated absences	75
(Decrease) in due to primary government	(1)
Increase in arbitrage rebate liability	1,574
Investment income (loss) included as operating revenue	(6,535)
Interest expense included as operating expense	66,389
Issuance cost included as operating expense	<u>3,538</u>
Total adjustments	<u>99,497</u>
Net cash provided by operating activities	\$ <u><u>109,222</u></u>
Noncash investing, capital, and financing activities:	
(Decrease) in fair value of investments	\$ <u>(4,933)</u>
Total noncash investing, capital, and financing activities	\$ <u><u>(4,933)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cashflows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

d. Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds and the Bond Reserve Funds.

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

f. Deferred Amount on Refundings and Bond Premiums and Discounts

1. Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.
2. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

g. Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

h. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

i. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

j. Mortgages

Mortgages are carried at their original amount less collected principal.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

k. Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding.

l. Allowance for Forgivable Second Mortgages

THDA has offered Down Payment Assistance (DPA) product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period.

m. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2015, the bank balance was \$17,206,841. All bank balances at June 30, 2015, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2015, \$16,820,732 was in the BNYM. Of this amount, \$16,570,732 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

b. Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Investment Type	June 30, 2015	
	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$144,042,517	2.994
U.S. Treasury Coupon	77,246,460	2.305
U.S. Agency Discount	154,992,130	0.076
Total	<u>\$376,281,107</u>	1.6512

The portfolios include the following investments, stated at par or face value, which have fair values highly sensitive to interest rate changes. These investments are recorded at fair value in the statement of net position.

Variable Rate Bonds

The agency purchased \$2,350,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.75 of par on June 11, 2012, and mature on June 11, 2027. The fair value of these securities on June 30, 2015, is \$2,319,095, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0%

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

with a step-up option to 2.5% on June 11, 2016, to 3.0% on June 11, 2020; to 4.0% on June 11, 2022; to 6.0% on June 11, 2023; to 7.0% on June 11, 2024; to 8.0% on December 11, 2024; to 10.0% on June 11, 2025; to 12.0% on December 11, 2025; to 14.0% on June 11, 2026; and to 16.0% on December 11, 2026.

The agency purchased \$3,210,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on June 28, 2012, and mature on June 27, 2027. The fair value of these securities on June 30, 2015 is \$3,166,835, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 28, 2015; to 3.0% on June 28, 2018; to 4.0% on June 28, 2021; to 5.0% on June 28, 2023; and to 6.5% on June 28, 2025.

The agency purchased \$3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 100.12 of par on November 15, 2012 and mature on June 11, 2027. The fair value of these securities on June 30, 2015 is \$2,960,547, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 11, 2016; to 3.0% on June 11, 2020; to 4.0% on June 11, 2022; to 6.0% on June 11, 2023; to 7.0% on June 11, 2024; to 8.0% on December 11, 2024; to 10.0% on June 11, 2025; to 12.0% on December 11, 2025; to 14.0% on June 11, 2026; and to 16.0% on December 11, 2026.

The agency purchased \$4,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.80 of par on November 8, 2012. Although these securities were scheduled to mature on November 8, 2027, these bonds were called on May 8, 2015.

The agency purchased \$3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.45 of par on November 23, 2012, and mature on November 23, 2027. The fair value of these securities on June 30, 2015 is \$2,676,093, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.125% on November 23, 2017; to 2.25% on November 23, 2020; to 2.5% on November 23, 2023; to 3.0% on November 23, 2024; to 4.0% on May 23, 2025; to 6.0% on November 23, 2025; to 8.0% on May 23, 2026; to 11.0% on November 23, 2026; and to 14% on May 23, 2027. This investment is callable quarterly beginning May 23, 2013, and ending November 23, 2015.

The agency purchased \$2,400,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.65 of par on December 21, 2012 and mature on December 21, 2027. The fair value of these securities on June 30, 2015 is \$2,243,767, included in U.S. Agency Coupon in the tables above. This investment has a stated

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

coupon rate of 2.0% with a step-up option to 2.25% on December 21, 2017; to 2.5% on December 21, 2020; to 3.0% on December 21, 2022; to 4.0% on December 21, 2023; to 5.0% on December 21, 2024; to 6.0% on December 21, 2025; to 8.0% on June 21, 2026; to 10.0% on December 21, 2026; and to 12.0% on June 21, 2027. This investment is callable quarterly beginning June 21, 2013, and ending December 21, 2018.

The agency purchased \$2,750,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.90 of par on January 30, 2013 and mature on January 30, 2025. The fair value of these securities on June 30, 2015 is \$2,696,378, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.25% on January 30, 2018; to 2.5% on January 30, 2021; to 3.0% on January 30, 2022; to 5.0% on January 30, 2023; to 7.0% on July 30, 2023; and to 9.0% on January 30, 2024. This investment is callable quarterly beginning July 30, 2013, and ending October 30, 2016.

The agency purchased \$1,500,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.18 of par on November 7, 2012, and mature on June 28, 2027. The fair value of these securities on June 30, 2015 is \$1,487,250, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 4.0% on June 28, 2017; to 5.0% on June 28, 2024; and to 6.5% on June 28, 2026. This investment is callable quarterly beginning December 28, 2012, and ending December 28, 2015.

The agency purchased \$2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on August 27, 2012, and mature on August 27, 2027. The fair value of these securities on June 30, 2015 is \$1,987,664, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 1.5% with a step-up option to 2.5% on August 27, 2015; to 3.5% on August 27, 2018; to 4.5% on August 27, 2021; and to 5.5% on August 27, 2024. This investment is callable quarterly beginning August 27, 2012, and ending November 27, 2015.

The agency purchased \$5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 27, 2012, and mature on December 27, 2027. The fair value of these securities on June 30, 2015 is \$4,869,600, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 1.0% with a step-up option to 2.0% on June 27, 2013, and to 3.15% on December 27, 2013. This investment is callable quarterly beginning June 27, 2013, and ending December 27, 2016.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

The agency purchased \$3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 27, 2012, and mature on December 27, 2017. Although these securities were scheduled to mature on December 27, 2017, they were sold internally on November 20, 2014. The fair value of these securities on June 30, 2015 is \$2,998,458, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 0.6% with a step-up option to 0.7% on December 27, 2014; to 1.0% on December 27, 2015; to 1.5% on December 27, 2016; and to 3.0% on June 27, 2017. This investment is callable quarterly beginning December 27, 2013, and ending December 27, 2016.

The agency purchased \$3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 28, 2012, and mature on December 28, 2027. The fair value of these securities on June 30, 2015 is \$2,944,083, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 3.0% on December 28, 2017; to 4.0% on December 28, 2020; to 5.0% on December 28, 2024; and to 6.0% on December 28, 2025. This investment is callable quarterly beginning June 28, 2013, and ending December 28, 2017.

Credit Risk Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2015, are included in the schedule below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

June 30, 2015					
			Credit Quality Rating		
Investment Type	Fair Value	U.S. Treasury ¹	AA+	AA-2	Not Rated ²
U.S. Agency Coupon	\$144,042,517		\$126,719,822	\$4,555,652	\$12,767,043
U.S. Treasury Coupon	77,246,460	\$77,246,460			
U.S. Agency Discount	154,992,130				154,992,130
Total	\$376,281,107	\$77,246,460	\$126,719,822	\$4,555,652	\$167,759,173

¹This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

²This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

<u>Issuer</u>	June 30, 2015	
	<u>Fair Value</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$215,105,442	57.17
Federal National Mortgage Assoc.	\$53,208,579	14.14

NOTE 3. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year 2015, Tennessee Housing Development Agency implemented *GASB Statement 68, Accounting and Financial Reporting for Pensions* and *GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. GASB Statement 68 establishes standards for the measurement, recognition, and display of the net pension liability and related expenses, deferred inflows, note disclosures and required supplementary information. The implementation of GASB Statement 68 resulted in a cumulative adjustment to the beginning net position of \$(6,792,803). This cumulative adjustment does not include related deferred inflows and deferred outflows of resources.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2015</u>
HOMEOWNERSHIP PROGRAM BONDS				
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	27,395
2006-1	7/1/2007-1/1/2037	100,000	3.55 to 5.75	24,185
2006-2	7/1/2007-1/1/2037	100,000	3.90 to 5.75	22,945
2006-3	1/1/2008-7/1/2037	100,000	3.65 to 5.75	30,935
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	34,055
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	45,200
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	51,365
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	56,675
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	21,760
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	18,430
2009-1	1/1/2010-7/1/2029	50,000	0.75 to 5.00	26,500
2009-2	7/1/2010-7/1/2030	75,000	0.90 to 5.00	40,090
2010-1	1/1/2011-7/1/2025	120,700	0.35 to 4.50	62,585
2011-1	7/1/2012-7/1/2042	141,255	0.60 to 4.65	96,835
2012-1	1/1/2013-7/1/2042	133,110	0.80 to 4.50	103,190
2012-2	7/1/2013-7/1/2043	97,625	0.50 to 4.00	81,890
Total Homeownership Program Bonds		<u>\$1,687,690</u>		\$744,035
Plus: Unamortized Bond Premiums				6,883
Less: Unamortized Bond Discount				<u>(133)</u>
Net Homeownership Program Bonds				<u>\$750,785</u>

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2015</u>
HOUSING FINANCE PROGRAM BONDS				
2009-A	1/1/2011-1/1/2040	\$100,000	0.90 to 4.625	\$20,325
2010-A	1/1/2011-7/1/2041	160,000	0.60 to 5.00	34,305
2010-B	7/1/2011-7/1/2041	100,000	0.45 to 4.50	72,770
2011-A	7/1/2011-7/1/2041	100,000	0.45 to 4.50	24,175
2011-B	7/1/2012-7/1/2041	100,000	0.25 to 4.50	79,500
2011-C	7/1/2012-7/1/2041	100,000	0.40 to 4.30	79,525
2015-A	1/1/2016-7/1/2045	150,000	0.30 to 3.85	163,850
Total Housing Finance Program Bonds		<u>\$810,000</u>		\$474,450
Plus: Unamortized Bond Premiums				5,415
Net Housing Finance Program Bonds				<u>\$479,865</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2015</u>
RESIDENTIAL FINANCE PROGRAM BONDS				
2013-1	1/1/2014-7/1/2043	\$215,905	0.40 to 4.00	\$177,520
2013-2	7/1/2014-7/1/2043	121,300	0.45 to 4.65	109,615
2014-1	1/1/2015-7/1/2039	150,000	0.32 to 4.00	143,350
2014-2	7/1/2015-7-1-2045	150,000	0.25 to 4.00	150,000
2015-1	1/1/2016-7/1/2045	150,000	0.50 to 4.05	150,000
Total Residential Finance Program Bonds		<u>\$787,205</u>		\$730,485
Plus: Unamortized Bond Premiums				<u>18,035</u>
Net Residential Finance Program Bonds				<u>\$748,520</u>
Net Total All Issues				<u>\$1,979,170</u>

Housing Finance Program Bonds The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2015, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2016	\$130,210	\$66,327	\$196,537
2017	60,840	67,253	128,093
2018	62,240	65,731	127,971
2019	65,205	63,938	129,143
2020	67,515	61,921	129,436
2021 – 2025	371,950	272,510	644,460
2026 – 2030	344,895	202,692	547,587
2031 – 2035	357,140	132,603	489,743
2036 – 2040	327,036	63,012	390,048
2041 – 2045	161,939	13,973	175,912
Total	<u>\$1,948,970</u>	<u>\$1,009,960</u>	<u>\$2,958,930</u>

c. Redemption of Bonds and Notes

During the year ended June 30, 2015, bonds were retired at par before maturity in the Homeownership Program in the amount of \$80,555,000, in the Housing Finance Program in the amount of \$61,800,000, and in the Residential Finance Program in the amount of \$9,740,000. The respective carrying values of the bonds were \$82,200,775, \$62,080,414 and \$10,014,860. This resulted in revenue to the Homeownership Program of \$1,645,775, to the Housing Finance Program of \$280,414, and to the Residential Finance Program of \$274,860.

On May 29, 2014, the agency issued \$150,000,000 in Residential Finance Program Bonds, Issue 2014-1. On July 1, 2014, the agency used \$30,375,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$30,375,000 early redemption). The carrying amount of these bonds was \$30,375,000. The refunding increased the agency's debt service by \$2,086,324 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$603,145.

On November 20, 2014, the agency issued \$150,000,000 in Residential Finance Program Bonds, Issue 2014-2. On January 1, 2015, the agency used \$32,955,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

of \$32,955,000 early redemption). The carrying amount of these bonds was \$32,970,071. The refunding increased the agency's debt service by \$2,804,783 over the next 20.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$628,626.

On May 28, 2015, the agency issued \$163,850,000 in Housing Finance Program Bonds, Issue 2015-A. On June 1, 2015, the agency used \$153,040,000 of these bonds to refund bonds previously issued in the Housing Finance Program (this amount consists of \$153,040,000 early redemption). The carrying amount of these bonds was \$153,040,000. The refunding reduced the agency's debt service by \$12,922,997 over the next 24.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$2,296,133.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2015.

Long-term Liabilities (Thousands)					
	Beginning Balance July 1, 2014	Additions	Reductions	Ending Balance June 30, 2015	Amounts Due Within One Year
Bonds Payable	\$1,962,990	\$463,850	(\$477,870)	\$1,948,970	\$130,455
Plus: Unamortized Bond Premiums	21,477	13,975	(5,119)	30,333	-0-
Less: Unamortized Bond Discounts	(169)	-0-	36	(133)	-0-
Compensated Absences	1,210	80	(83)	1,207	585
Net Pension Liability	8,557	-0-	(5,593)	2,964	-0-
Escrow Deposits	2,220	1,336	(1,003)	2,553	76
Arbitrage Rebate Payable	1,229	1,574	(-0-)	2,803	-0-
Total	\$1,997,514	\$480,815	(\$489,632)	\$1,988,697	\$131,116

NOTE 5. RESTRICTED NET POSITION

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

NOTE 6. PENSION PLANS

a. Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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Benefits provided Title 8, Chapters 34-37, *Tennessee Code Annotated* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%

Plus:

Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Tennessee Housing Development Agency employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2015 to the Closed State and Higher Education Employee Pension Plan were \$1,652,466 which is 15.03 percent of

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability At June 30, 2015, Tennessee Housing Development Agency reported a liability of \$2,963,885 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension liability was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2014 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2014 measurement date, Tennessee Housing Development Agency's proportion of the central state liability was .424758 percent, representing the first time presentation of this proportion.

Pension expense For the year ended June 30, 2015, Tennessee Housing Development Agency recognized a pension expense of \$441,581.

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2015, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 639,392
Net difference between projected and actual earnings on pension plan investments	-	3,631,106
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2014	1,652,466	-
Total	\$ <u>1,652,466</u>	\$ <u>4,270,498</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of \$1,652,466 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2016	\$ (1,067,625)
2017	(1,067,625)
2018	(1,067,625)
2019	(1,067,623)
2020	-
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions The total pension liability as of the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	\$ 10,165,784	\$ 2,963,885	\$ (3,098,235)

Pension plan fiduciary net position Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2015, Tennessee Housing Development Agency reported a payable of \$61,392 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2015.

b. State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014 and covers employees hired before July 1, 2014. Employees hired after June 30, 2014 are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37.

Benefits provided Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2015 to the State and Higher Education Employee Retirement Plan were \$19,267 which is 3.82 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liabilities Since the measurement date is June 30, 2014, which is prior to the July 1, 2014 inception of the State and Higher Education Employee Retirement Plan, there is not a net pension liability to report at June 30, 2015.

Pension expense Since the measurement date is June 30, 2014, Tennessee Housing Development Agency (THDA) did not recognize a pension expense at June 30, 2015.

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2015, Tennessee Housing Development Agency reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Tennessee Housing Development Agency's contributions subsequent to the measurement date of June 30, 2014	\$ 19,267	\$ (not applicable)

Tennessee Housing Development Agency's employer contributions of \$19,267 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ended June 30, 2016.

Payable to the Pension Plan

At June 30, 2015, THDA reported a payable of \$6,568 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

NOTE 7. DEFERRED COMPENSATION PLANS

The Tennessee Housing Development Agency, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to IRC, Section 457 and the other pursuant to IRC, Section 401(k). The plans are outsourced to third party vendors and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The Tennessee Housing Development Agency provides up to a \$50 monthly employer match for

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014 voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of *Public Acts of 2013*, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The Tennessee Housing Development Agency recognized a pension expense of \$118,794 for employer contributions.

NOTE 8. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

NOTE 9. INSURANCE-RELATED ACTIVITIES

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

b. Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the RMF. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of \$10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$10 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2013, is presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2015, the Risk Management Fund held \$127.9 million in cash designated for payment of claims. At June 30, 2015, the scheduled coverage for the agency was \$1.561 million for furniture and equipment.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans - the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* Section 8-27-101. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation - The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including the Tennessee Housing Development Agency (see Note 11). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy - The premium requirements of plan members are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Administrative costs of the plan are allocated to plan participants. Retired employees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25.

THDA Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan
(Thousands)

June 30, 2015

Annual Required Contribution (ARC)	\$356
Interest on the Net OPEB Obligation	56
Adjustment to the ARC	(55)
Annual OPEB cost	357
Amount of contribution	(254)
Increase in Net OPEB Obligation	103
Net OPEB Obligation-beginning of year	1,413
Net OPEB Obligation-end of year	\$1,516

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost (Thousands)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation At Year End (Thousands)</u>
6/30/2015	State Employee Group Plan	\$ 357	71%	\$ 1,516
6/30/2014	State Employee Group Plan	\$ 346	68%	\$ 1,413
6/30/2013	State Employee Group Plan	\$ 359	60%	\$ 1,303

Funded Status and Funding Progress The funded status of THDA's portion of the state Employee Group Plan as of July 1, 2013, was as follows (thousands):

Actuarial valuation date	7/01/2013
Actuarial accrued liability (AAL)	\$ 2,964
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	\$ 2,964
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 9,841
UAAL as a percentage of covered payroll	30%

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2013, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreases to 7% in fiscal year 2015, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2044. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

NOTE 11. ON-BEHALF PAYMENTS

During the year ended June 30, 2015, the State of Tennessee made payments of \$5,525 on behalf of THDA for retirees participating in the Medicare Supplement Plan, The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

NOTE 12. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund;

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

(ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

NOTE 13. SUBSEQUENT EVENTS

- a.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

July 1, 2015	Homeownership Program	\$40,865,000
	Housing Finance Program	10,490,000
	Residential Finance Program	<u>10,825,000</u>
	Total	<u>\$62,180,000</u>

- b.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

August 1, 2015	Homeownership Program	\$12,535,000
	Housing Finance Program	4,855,000
	Residential Finance Program	<u>7,010,000</u>
	Total	<u>\$24,400,000</u>

- c.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

September 1, 2015	Homeownership Program	\$13,760,000
	Housing Finance Program	4,880,000
	Residential Finance Program	<u>5,845,000</u>
	Total	<u>\$24,485,000</u>

- d.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

October 1, 2015	Homeownership Program	\$13,155,000
	Housing Finance Program	4,595,000
	Residential Finance Program	<u>5,480,000</u>
	Total	<u>\$23,230,000</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

- e. Homeownership Program Bonds, Issue 2015-2, were sold on October 15, 2015. The bond maturities are as follow:

BONDS ISSUED (Thousands)			
		Issued	Interest
Series	Maturity Range	Amount	Rate
			(Percent)
2015-2	7/1/2016-1/1/2046	\$175,000	0.400 to 4.000

- f. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

November 1, 2015	Homeownership Program	\$11,975,000
	Housing Finance Program	6,410,000
	Residential Finance Program	<u>4,835,000</u>
	Total	<u>\$23,220,000</u>

- g. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

December 1, 2015	Homeownership Program	\$15,680,000
	Housing Finance Program	6,365,000
	Residential Finance Program	<u>5,045,000</u>
	Total	<u>\$27,090,000</u>

NOTE 14. EVENTS (UNAUDITED) SUBSEQUENT TO THE DATE OF THE INDEPENDENT AUDITOR'S REPORT

- a. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

January 1, 2016	Homeownership Program	\$56,420,000
	Housing Finance Program	16,800,000
	Residential Finance Program	<u>9,065,000</u>
	Total	<u>\$82,285,000</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

- b. Residential Finance Program bonds, Issue 2016-1, were authorized by the Board of Directors on January 26, 2016, not to exceed \$150,000,000. The sale of the Bonds will occur no later than June 30, 2016.

- c. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

February 1, 2016	Homeownership Program	\$9,625,000
	Housing Finance Program	5,915,000
	Residential Finance Program	<u>4,010,000</u>
	Total	<u>\$19,550,000</u>

- d. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

March 1, 2016	Homeownership Program	\$10,790,000
	Housing Finance Program	6,455,000
	Residential Finance Program	<u>6,880,000</u>
	Total	<u>\$24,125,000</u>

- e. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

April 1, 2016	Homeownership Program	\$9,790,000
	Housing Finance Program	7,135,000
	Residential Finance Program	<u>6,230,000</u>
	Total	<u>\$23,155,000</u>

- f. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

May 1, 2016	Homeownership Program	\$7,380,000
	Housing Finance Program	5,790,000
	Residential Finance Program	<u>6,510,000</u>
	Total	<u>\$19,680,000</u>

- g. Residential Finance Program bonds, Issue 2016-2, were authorized by the Board of Directors on May 24, 2016, not to exceed \$125,000,000. The sale of the Bonds will occur no later than December 31, 2016.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

- h. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

June 1, 2016	Homeownership Program	\$8,545,000
	Housing Finance Program	5,755,000
	Residential Finance Program	<u>5,650,000</u>
	Total	<u>\$19,950,000</u>

- i. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

July 1, 2016	Homeownership Program	\$33,970,000
	Housing Finance Program	6,300,000
	Residential Finance Program	<u>13,065,000</u>
	Total	<u>\$53,335,000</u>

- j. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

August 1, 2016	Homeownership Program	\$9,125,000
	Housing Finance Program	6,795,000
	Residential Finance Program	<u>7,770,000</u>
	Total	<u>\$23,690,000</u>

- k. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

September 1, 2016	Homeownership Program	\$10,600,000
	Housing Finance Program	6,940,000
	Residential Finance Program	<u>8,775,000</u>
	Total	<u>\$26,315,000</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYEE BENEFITS SCHEDULE OF FUNDING PROGRESS
(Expressed in Thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2010	State Employee Group Plan	\$ -0-	\$ 3,316	\$ 3,316	0%	\$ 8,640	38%
7/1/2011	State Employee Group Plan	\$ -0-	\$ 2,919	\$ 2,919	0%	\$ 9,818	30%
7/1/2013	State Employee Group Plan	\$ -0-	\$ 2,964	\$ 2,964	0%	\$ 9,841	30%

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	<u>2014</u>
Tennessee Housing Development Agency's proportion of the net pension liability	.424758%
Tennessee Housing Development Agency's proportionate share of the net pension liability	\$ 2,964
Tennessee Housing Development Agency's covered-employee payroll	\$ 11,601
Tennessee Housing Development Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	25.55%
Plan fiduciary net position as a percentage of the total pension liability	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	<u>2014</u>	<u>2015</u>
Contractually Required Contribution	\$ 1,744	\$ 1,652
Contribution in relation to the contractually required contribution	<u>1,744</u>	<u>1,652</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Tennessee Housing Development Agency's covered-employee payroll		
\$	11,601	\$ 10,994
Contribution as a percentage of Tennessee Housing Development Agency's covered-employee payroll	15.03%	15.03%

This is a 10-year schedule. However, the information in the schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
STATE AND HIGHER EDUCATION EMPLOYEE RETIREMENT PLAN
(Expressed in Thousands)

		2015
Contractually Required Contributions	\$	<u>19</u>
Contributions in relation to the contractually required contribution		<u>(19)</u>
Contribution deficiency (excess)	\$	<u><u>-</u></u>
Tennessee Housing Development Agency's covered-employee payroll	\$	498
Contributions as a percentage of Tennessee Housing Development Agency's covered-employee payroll		3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2015
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 5,915	\$ 13,428	\$ 97,295	\$ 39,330	\$ 119,542	\$ 275,510
Investments	-	-	-	-	42,603	42,603
Receivables:						
Accounts	3	444	15,337	10,259	3,554	29,597
Interest	21	58	6,240	3,594	3,643	13,556
First mortgage loans	6	164	25,100	9,874	18,321	53,465
Due from federal government	28,051	-	-	-	-	28,051
Due from other funds	3,488	-	-	-	-	3,488
Prepaid expenses	10	-	-	-	-	10
Total current assets	37,494	14,094	143,972	63,057	187,663	446,280
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	14,667	-	9,321	1,068	422	25,478
Investments	-	-	135,899	19,837	22,888	178,624
Investment Interest receivable	-	-	1,401	104	68	1,573
Investments	-	4,684	196	1,866	28,310	35,056
First mortgage loans receivable	867	48,246	760,561	436,523	623,580	1,869,777
Second mortgage loans receivable	-	-	12,505	-	-	12,505
Allowance for forgivable second mortgages	-	-	(2,904)	-	-	(2,904)
Advance to local government	3,084	-	-	-	-	3,084
Capital assets:						
Furniture and equipment	1,561	-	-	-	-	1,561
Less accumulated depreciation	(1,049)	-	-	-	-	(1,049)
Total noncurrent assets	19,130	52,930	916,979	459,398	675,268	2,123,705
Total assets	56,624	67,024	1,060,951	522,455	862,931	2,569,985
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	759	981
Deferred outflows related to pensions	1,672	-	-	-	-	1,672
Total deferred outflows of resources	1,672	-	222	-	759	2,653
LIABILITIES						
Current liabilities:						
Accounts payable	11,359	2	35	21	27	11,444
Accrued payroll and related liabilities	587	-	-	-	-	587
Compensated absences	585	-	-	-	-	585
Due to primary government	71	-	-	-	-	71
Interest payable	-	-	15,964	5,807	10,554	32,325
Escrow deposits	-	76	-	-	-	76
Prepayments on mortgage loans	-	-	507	235	423	1,165
Due to federal government	14,667	-	-	-	-	14,667
Due to other funds	-	-	2,065	-	1,423	3,488
Bonds payable	-	-	77,670	23,890	28,895	130,455
Total current liabilities	27,269	78	96,241	29,953	41,322	194,863
Noncurrent liabilities:						
Bonds payable	-	-	673,115	455,975	719,625	1,848,715
Compensated absences	622	-	-	-	-	622
Net pension liability	2,964	-	-	-	-	2,964
Net OPEB obligation	1,516	-	-	-	-	1,516
Escrow deposits	294	495	-	-	1,688	2,477
Arbitrage rebate payable	-	-	2,803	-	-	2,803
Total noncurrent liabilities	5,396	495	675,918	455,975	721,313	1,859,097
Total liabilities	32,665	573	772,159	485,928	762,635	2,053,960
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	4,271	-	-	-	-	4,271
Total deferred inflows of resources	4,271	-	-	-	-	4,271
NET POSITION						
Net investment in capital assets	512	-	-	-	-	512
Restricted for single family bond programs	-	145	289,014	36,527	101,055	426,741
Restricted for grant programs	-	11,302	-	-	-	11,302
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Unrestricted	17,695	55,004	-	-	-	72,699
Total net position	\$ 21,360	\$ 66,451	\$ 289,014	\$ 36,527	\$ 101,055	\$ 514,407

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ 36	\$ 119	\$ 47,964	\$ 23,487	\$ 25,393	\$ 96,999
Investment income:						
Interest	29	27	7,827	664	1,866	10,413
Net increase (decrease) in the fair value of investments	-	(1)	(3,550)	225	(552)	(3,878)
Federal grant administration fees	14,920	-	-	-	-	14,920
Fees and other income	1,431	1	-	-	160	1,592
Total operating revenues	16,416	146	52,241	24,376	26,867	120,046
OPERATING EXPENSES						
Salaries and benefits	15,147	-	-	-	-	15,147
Contractual services	6,475	-	1	2	-	6,478
Materials and supplies	657	-	-	-	-	657
Rentals and insurance	30	-	-	-	-	30
Other administrative expenses	476	-	-	-	-	476
Other program expenses	1,931	108	6,596	549	1,001	10,185
Interest expense	-	-	32,354	16,977	17,058	66,389
Mortgage service fees	-	87	3,225	1,716	2,048	7,076
Issuance costs	-	-	-	1,195	2,343	3,538
Depreciation	345	-	-	-	-	345
Total operating expenses	25,061	195	42,176	20,439	22,450	110,321
Operating income (loss)	(8,645)	(49)	10,065	3,937	4,417	9,725
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	307,010	-	-	-	-	307,010
Other grant revenue	-	-	2	-	-	2
Federal grants expenses	(307,165)	-	-	-	-	(307,165)
Local grants expenses	(15,100)	(200)	-	-	-	(15,300)
Total nonoperating revenues (expenses)	(15,255)	(200)	2	-	-	(15,453)
Income (loss) before transfers	(23,900)	(249)	10,067	3,937	4,417	(5,728)
Transfers (to) other funds	-	-	(3,592)	(13,036)	(9,069)	(25,697)
Transfers from other funds	16,147	9,550	-	-	-	25,697
Change in net position	(7,753)	9,301	6,475	(9,099)	(4,652)	(5,728)
Total net position, July 1	35,906	57,150	282,539	45,626	105,707	526,928
Cumulative effect of a change in accounting principle	(6,793)	-	-	-	-	(6,793)
Total net position, July 1, as restated	29,113	57,150	282,539	45,626	105,707	520,135
Total net position, June 30	\$ 21,360	\$ 66,451	\$ 289,014	\$ 36,527	\$ 101,055	\$ 514,407

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ 360	\$ 3,809	\$ 182,632	\$ 78,039	\$ 115,608	\$ 380,448
Receipts from federal government	14,708	-	-	-	-	14,708
Receipts from other funds	3,634	20	-	-	1,423	5,077
Other miscellaneous receipts	1,431	1	-	-	160	1,592
Acquisition of mortgage loans	-	(8,259)	(9,052)	(1,716)	(231,737)	(250,764)
Payments to service mortgages	-	(87)	(3,225)	(554)	(2,048)	(5,914)
Payments to suppliers	(10,755)	(110)	(2,128)	-	(1,252)	(14,245)
Payments to other funds	-	-	(5,077)	-	-	(5,077)
Payments to or for employees	(16,603)	-	-	-	-	(16,603)
Net cash provided (used) by operating activities	(7,225)	(4,626)	163,150	75,769	(117,846)	109,222
Cash flows from non-capital financing activities:						
Operating grants received	309,192	-	2	-	-	309,194
Transfers in (out)	16,147	9,475	57,588	(13,036)	(70,174)	-
Proceeds from sale of bonds	-	-	-	168,316	309,508	477,824
Operating grants paid	(314,829)	(200)	-	-	-	(315,029)
Cost of issuance paid	-	-	-	(1,195)	(2,343)	(3,538)
Principal payments	-	-	(221,280)	(215,875)	(40,715)	(477,870)
Interest paid	-	-	(40,474)	(20,913)	(13,993)	(75,380)
Net cash provided (used) by non-capital financing activities	10,510	9,275	(204,164)	(82,703)	182,283	(84,799)
Cash flows from capital and related financing activities:						
Purchases of capital assets	(231)	-	-	-	-	(231)
Net cash used by capital and related financing activities	(231)	-	-	-	-	(231)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	3,055	86,016	28,137	59,270	176,478
Purchases of investments	-	(5,036)	(54,090)	(17,044)	(107,486)	(183,656)
Investment interest received	29	178	7,932	680	1,729	10,548
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	7	3	13	23
Net cash provided (used) by investing activities	29	(1,803)	39,865	11,776	(46,474)	3,393
Net increase (decrease) in cash and cash equivalents	3,083	2,846	(1,149)	4,842	17,963	27,585
Cash and cash equivalents, July 1	17,499	10,582	107,765	35,556	102,001	273,403
Cash and cash equivalents, June 30	\$ 20,582	\$ 13,428	\$ 106,616	\$ 40,398	\$ 119,964	\$ 300,988

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (8,645)	\$ (49)	\$ 10,065	\$ 3,937	\$ 4,417	\$ 9,725
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	345	-	-	-	-	345
Pension expense	442	-	-	-	-	442
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	-	(53)	5,997	(1,895)	(705)	3,344
(Increase) decrease in mortgage interest receivable	8	45	1,486	239	(1,457)	321
(Increase) in deferred pension outflows	(1,672)	-	-	-	-	(1,672)
(Increase) decrease in mortgage loans receivable	294	(4,501)	121,214	56,273	(139,845)	33,435
Decrease in due from federal government	(212)	-	-	-	-	(212)
Decrease in interfund receivables	3,634	20	-	-	1,423	5,077
(Decrease) in interfund payables	-	-	(5,077)	-	-	(5,077)
Increase (decrease) in accounts payable	(1,464)	(62)	(186)	(68)	234	(1,546)
Increase in accrued payroll / compensated absences	75	-	-	-	-	75
(Decrease) in due to primary government	(1)	-	-	-	-	(1)
Increase in arbitrage rebate liability	-	-	1,574	-	-	1,574
Investment income included as operating revenue	(29)	(26)	(4,277)	(889)	(1,314)	(6,535)
Interest expense included as operating expense	-	-	32,354	16,977	17,058	66,389
Issuance cost included as operating expense	-	-	-	1,195	2,343	3,538
Total adjustments	<u>1,420</u>	<u>(4,577)</u>	<u>153,085</u>	<u>71,832</u>	<u>(122,263)</u>	<u>99,497</u>
Net cash provided (used) by operating activities	\$ <u>(7,225)</u>	\$ <u>(4,626)</u>	\$ <u>163,150</u>	\$ <u>75,769</u>	\$ <u>(117,846)</u>	\$ <u>109,222</u>
Noncash investing, capital, and financing activities:						
Increase (decrease) in fair value of investments	\$ -	\$ 7	\$ (4,298)	\$ (179)	\$ (463)	\$ (4,933)
Total noncash investing, capital, and financing activities	\$ <u>-</u>	\$ <u>7</u>	\$ <u>(4,298)</u>	\$ <u>(179)</u>	\$ <u>(463)</u>	\$ <u>(4,933)</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION - MORTGAGE FINANCE PROGRAM
JUNE 30, 2015
(Expressed in Thousands)

	General Fund	Escrow Fund**	Mortgage Finance Program Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 13,275	\$ 153	\$ 13,428
Receivables:			
Accounts	439	5	444
Interest	57	1	58
First mortgage loans	164	-	164
Total current assets	13,935	159	14,094
Noncurrent assets:			
Restricted assets:			
Investments	4,226	458	4,684
First mortgage loans receivable	48,246	-	48,246
Total noncurrent assets	52,472	458	52,930
Total assets	66,407	617	67,024
LIABILITIES			
Current liabilities:			
Accounts payable	2	-	2
Escrow deposits	-	76	76
Total current liabilities	2	76	78
Noncurrent liabilities:			
Escrow deposits	99	396	495
Total noncurrent liabilities	99	396	495
Total liabilities	101	472	573
NET POSITION			
Restricted for single family bond programs	-	145	145
Restricted for grant programs	11,302	-	11,302
Unrestricted	55,004	-	55,004
Total net position	\$ 66,306	\$ 145	\$ 66,451

** The Escrow Funds can only be used for escrow payments.

***UNAUDITED FINANCIAL
INFORMATION***

March 31, 2016

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

	March 31, 2016					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2016
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 12,275	\$ 3,853	\$ 45,401	\$ 27,883	\$ 64,472	\$ 153,884
Investments	-	4,265	5,995	5,895	38,157	54,312
Receivables:						
Accounts	-	426	10,231	6,535	4,145	21,337
Interest	10	115	5,083	3,453	4,842	13,503
First mortgage loans	6	163	18,843	6,588	21,493	47,093
Due from federal government	18,919	-	-	-	-	18,919
Due from other funds	2,037	-	-	-	28	2,065
Prepaid Expenses	1	-	-	-	-	1
Total current assets	33,248	8,822	85,553	50,354	133,137	311,114
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	6,433	-	28,581	3,695	3,695	42,404
Investments	-	-	110,899	17,767	17,767	146,433
Investment interest receivable	-	-	1,694	97	97	1,888
Investments	-	5,559	1,544	1,970	27,737	36,810
First mortgage loans receivable	716	48,007	596,763	368,389	841,261	1,855,136
Second mortgage loans receivable	-	-	18,959	-	-	18,959
Allowance for forgivable second mortgages	-	-	(5,648)	-	-	(5,648)
Advance to local government	3,102	-	-	-	-	3,102
Capital assets:						
Furniture and equipment	1,561	-	-	-	-	1,561
Less accumulated depreciation	(1,049)	-	-	-	-	(1,049)
Total noncurrent assets	10,763	53,566	752,792	391,918	890,557	2,099,596
Total assets	44,011	62,388	838,345	442,272	1,023,694	2,410,710
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	759	981
Deferred outflows related to pensions	1,672	-	-	-	-	1,672
Total deferred outflows of resources	1,672	-	222	-	759	2,653
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 11,739	\$ 2	\$ -	\$ -	\$ -	\$ 11,741
Accrued payroll and related liabilities	2,555	-	-	-	-	2,555
Compensated absences	569	-	-	-	-	569
Due to federal government	5,412	-	-	-	-	5,412
Interest payable	-	-	5,883	3,450	6,712	16,045
Escrow deposits	-	68	-	-	-	68
Prepayments on mortgage loans	-	1	517	260	679	1,457
Due to other funds	-	-	2,065	-	-	2,065
Bonds payable	-	-	34,550	19,265	30,715	84,530
Total current liabilities	20,275	71	43,015	22,975	38,106	124,442
Noncurrent liabilities:						
Bonds payable	-	-	529,716	393,059	835,897	1,758,672
Compensated absences	546	-	-	-	-	546
Net pension liability	2,964	-	-	-	-	2,964
Net OPEB obligation	1,516	-	-	-	-	1,516
Escrow deposits	194	506	-	-	2,750	3,450
Arbitrage rebate payable	-	-	2,803	-	-	2,803
Total noncurrent liabilities	5,220	506	532,519	393,059	838,647	1,769,951
Total liabilities	25,495	577	575,534	416,034	876,753	1,894,393
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	4,271	-	-	-	-	4,271
Total deferred inflows of resources	4,271	-	-	-	-	4,271
NET POSITION						
Net investment in capital assets	512	-	-	-	-	512
Restricted for single family bond programs	-	41	263,033	26,238	147,700	437,012
Restricted for grant programs	-	10,864	-	-	-	10,864
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Unrestricted	12,252	50,906	-	-	-	63,158
Total net position	\$ 15,917	\$ 61,811	\$ 263,033	\$ 26,238	\$ 147,700	\$ 514,699

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2016

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2016
OPERATING REVENUES						
Mortgage interest income	\$ 21	\$ 71	\$ 26,980	\$ 14,993	\$ 26,955	\$ 69,020
Investment income:						
Interest	22	152	5,388	461	1,552	7,575
Net increase (decrease) in the fair value of investments	-	(105)	(2,750)	176	(180)	(2,859)
Federal grant administration fees	9,757	-	-	-	-	9,757
Fees and other income	2,447	-	-	-	646	3,093
Total operating revenues	12,247	118	29,618	15,630	28,973	86,586
OPERATING EXPENSES						
Salaries and benefits	12,416	-	-	-	-	12,416
Contractual services	4,085	-	-	-	13	4,098
Materials and supplies	864	-	-	-	-	864
Rentals and insurance	16	-	-	-	-	16
Other administrative expenses	382	-	-	-	-	382
Other program expenses	258	58	4,139	230	904	5,589
Interest expense	-	-	18,572	10,341	17,893	46,806
Mortgage service fees	-	69	1,796	1,097	2,156	5,118
Issuance costs	-	-	-	-	1,303	1,303
Total operating expenses	18,021	127	24,507	11,668	22,269	76,592
Operating income (loss)	(5,774)	(9)	5,111	3,962	6,704	9,994
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	197,663	-	-	-	-	197,663
Other grant revenue	-	8	-	-	-	8
Federal grants expenses	(197,635)	-	-	-	-	(197,635)
Local grants expenses	(9,738)	-	-	-	-	(9,738)
Total nonoperating revenues (expenses)	(9,710)	8	-	-	-	(9,702)
Income (loss) before transfers	(15,484)	(1)	5,111	3,962	6,704	292
Transfers (to) other funds	-	(4,639)	(31,092)	(14,251)	-	(49,982)
Transfers from other funds	10,041	-	-	-	39,941	49,982
Change in net position	(5,443)	(4,640)	(25,981)	(10,289)	46,645	292
Total net position, July 1	21,360	66,451	289,014	36,527	101,055	514,407
Total net position, End of period	\$ 15,917	\$ 61,811	\$ 263,033	\$ 26,238	\$ 147,700	\$ 514,699

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2016

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2016
Cash flows from operating activities:						
Receipts from customers	\$ 4,007	\$ 2,321	\$ 164,653	\$ 90,309	\$ 55,892	\$ 317,182
Receipts from federal government	9,363	-	-	-	-	9,363
Receipts from other funds	1,451	-	-	-	-	1,451
Other miscellaneous receipts	2,447	-	-	-	646	3,093
Acquisition of mortgage loans	-	(1,988)	(14,207)	-	(203,664)	(219,859)
Payments to service mortgages	-	(69)	(1,796)	(1,097)	(2,156)	(5,118)
Payments to suppliers	-	(58)	(1,430)	(251)	(944)	(2,683)
Payments to other funds	-	-	-	-	(1,451)	(1,451)
Payments to or for employees	(10,741)	-	-	-	-	(10,741)
Net cash provided (used) by operating activities	6,527	206	147,220	88,961	(151,677)	91,237
Cash flows from non-capital financing activities:						
Operating grants received	197,934	8	-	-	-	197,942
Transfers in (out)	10,041	(4,639)	15,323	(14,251)	(6,474)	-
Proceeds from sale of bonds	-	-	-	-	179,070	179,070
Operating grants paid	(216,398)	-	-	-	-	(216,398)
Cost of issuance paid	-	-	-	-	(1,303)	(1,303)
Principal payments	-	-	(184,805)	(66,765)	(58,995)	(310,565)
Interest paid	-	-	(30,366)	(13,475)	(23,716)	(67,557)
Net cash provided (used) by non-capital financing activities	(8,423)	(4,631)	(199,848)	(94,491)	88,582	(218,811)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	11,599	125,310	20,894	160,551	318,354
Purchases of investments	-	(16,844)	(110,415)	(24,656)	(150,606)	(302,521)
Investment interest received	22	95	5,087	462	1,338	7,004
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	12	10	15	37
Net cash provided (used) by investing activities	22	(5,150)	19,994	(3,290)	11,298	22,874
Net increase (decrease) in cash and cash equivalents	(1,874)	(9,575)	(32,634)	(8,820)	(51,797)	(104,700)
Cash and cash equivalents, July 1	20,582	13,428	106,616	40,398	119,964	300,988
Cash and cash equivalents, End of period	\$ 18,708	\$ 3,853	\$ 73,982	\$ 31,578	\$ 68,167	\$ 196,288

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2016

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2016
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (5,774)	\$ (9)	\$ 5,111	\$ 3,962	\$ 6,704	\$ 9,994
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	3	18	5,106	3,724	(591)	8,260
(Increase) decrease in mortgage interest receivable	11	(1)	1,164	147	(1,015)	306
(Increase) decrease in mortgage loans receivable	133	240	119,930	71,420	(174,438)	17,285
(Increase) in due from federal government	(394)	-	-	-	-	(394)
Decrease in interfund receivables	1,451	-	-	-	-	1,451
(Decrease) in interfund payables	-	-	-	-	(1,451)	(1,451)
Increase (decrease) in accounts payable	9,314	5	(25)	4	1,290	10,588
Increase in accrued payroll / compensated absences	1,876	-	-	-	-	1,876
(Decrease) in due to primary government	(71)	-	-	-	-	(71)
Investment income included as operating revenue	(22)	(47)	(2,638)	(637)	(1,372)	(4,716)
Interest expense included as operating expense	-	-	18,572	10,341	17,893	46,806
Issuance cost included as operating expense	-	-	-	-	1,303	1,303
Total adjustments	12,301	215	142,109	84,999	(158,381)	81,243
Net cash provided (used) by operating activities	\$ 6,527	\$ 206	\$ 147,220	\$ 88,961	\$ (151,677)	\$ 91,237
Noncash investing, capital, and financing activities:						
Increase (Decrease) in fair value of investments	-	(75)	1,657	50	(671)	961
Total noncash investing, capital, and financing activities	\$ -	\$ (75)	\$ 1,657	\$ 50	\$ (671)	\$ 961

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS AND SERVICERS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the "Working Agreements"). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA's security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA's rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent's privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the "O. A. Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA currently has agreements with U.S. Bank and Pinnacle Bank (successor to Magna Bank) (the "Servicers") to service Program Loans (the "Servicing Agreements"). U.S. Bank services approximately 92% of THDA's entire portfolio of mortgage loans made or purchased with bond proceeds. Pinnacle Bank services the remainder. The Servicing Agreements provide for the collection and remittance of Program Loan payments to THDA or a designated depository. Prior to remittance, the Servicer deducts a servicing fee, late charges and amounts to be held in escrow accounts for real property taxes, mortgage and hazard insurance premiums, and assessments. The servicing fee under current Servicing Agreements is 3/8% annually. The Servicer is required to notify THDA in the event of any default on a Program Loan, and the Servicer may conduct foreclosure proceedings with the consent and at the expense of THDA.

The Servicer is required to repurchase any Program Loan from THDA at any time THDA suffers or is threatened with a material loss by reason of the Servicer's failure to perform its obligations under the Servicing Agreement. THDA may also terminate a Servicing Agreement for inadequate performance by the Servicer.

THDA is authorized to service Program Loans but, to date, has not undertaken the servicing function for Program Loans. As set forth under the heading "THDA-Executive Staff Members", THDA hired a Director of Mortgage Servicing in February 2016 and is in the process of developing the infrastructure and staffing necessary for self-servicing of Program Loans. THDA anticipates that it will commence servicing Program Loans in late fall 2016 by bringing in-house the portfolio currently serviced by Pinnacle Bank. THDA anticipates servicing all new production beginning in early 2017. Thereafter, THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

Guide for Servicers

THDA provides each Servicer with a Guide for Servicers (the "Servicer Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax requirements. The Servicer Guide includes substantive servicing requirements, incorporates the limitation on assumption of mortgages contained in the federal tax code, and specifies the procedures to be followed by the Servicer to comply with THDA requirements and the federal tax code. The Servicer Guide also includes a list of the documents that must be maintained by the Servicer, copies of all THDA's servicing and loan assumption forms, together with instructions for their completion and a schedule for the submission of the required forms and reports to THDA.

THDA requires monthly reports from Servicers. Each Servicer's performance is monitored and its servicing record is subject to examination by THDA's staff. Examinations are performed monthly from documentation received from the Servicer.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the "General Residential Finance Program Bond Resolution."

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

"Account" means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

"Accountant" means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

"Act" means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

"Appreciation Bond" means any Bond whose Issue Amount is less than 97.5% of the Maturity Amount.

"Authorized Officer" means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

"Bond" or "Bonds" means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

"Bond Counsel's Opinion" means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

"Bondholder" or "holder" or words of similar import, when used with reference to a Bond means the registered owner of any Outstanding Bond.

"Bond Reserve Fund" means the Bond Reserve Fund established pursuant to Section 5.1.

"Bond Reserve Fund Requirement" means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

"Code" means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

- (1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;
- (2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

"Program Security" means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

"Projected Cash Flow Statement" means a Certificate delivered pursuant to the provisions of Section 7.11.

"Rating Agency" means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody's and S&P.

"Redemption Account" means the Redemption Account which is established and created in the Revenue Fund pursuant to this Resolution.

"Redemption Date" means the date upon which Bonds are to be called for redemption pursuant to this Resolution.

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

"Refunding Bond" means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

"Resolution" means this Resolution and any amendments or supplements made in accordance with its terms.

"Revenue Fund" means the Revenue Fund established pursuant to Section 5.1.

"Revenues" means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

"S&P" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, and any successor.

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

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

"State" means the State of Tennessee.

"Supplemental Resolution" means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

"THDA" means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

"Trustee" means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI

REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

- (1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or
- (2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or
- (3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

- (1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;
- (2) by bringing suit upon the Bonds;
- (3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of or Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$823,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Amount Outstanding as of July 31, 2016 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A	December 23, 2009	\$100,000,000	--	\$ 14,355,000	3.96%
2010-A/ 2009-B, Subseries B-1	June 17, 2010	74,710,000	\$ 85,290,000	22,460,000	3.85
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	59,810,000	3.15
2011-A/ 2009-B, Subseries B-3	April 14, 2011	40,000,000	60,000,000	17,490,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	63,890,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,290,000	34,710,000	63,495,000	3.01
Issue 2015-A	May 28, 2015	<u>163,850,000</u>	<u> </u>	<u>141,205,000</u>	2.78
TOTAL		<u>\$523,850,000</u>	<u>\$300,000,000</u>	<u>\$382,705,000</u>	

(1) Bond yield.

As of June 30, 2016, 4,010 mortgage loans in the approximate aggregate principal amount of \$358,297,767 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$1,287,690,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of July 31, 2016 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2007-1	March 13, 2007	\$100,000,000	\$ 27,235,000	4.49
2007-2	June 6, 2007	120,000,000	33,565,000	4.53
2007-3	August 7, 2007	150,000,000	37,745,000	4.77
2007-4	October 30, 2007	150,000,000	42,670,000	4.79
2008-1	May 29, 2008	60,000,000	16,890,000	4.93
2008-3	September 30, 2008	90,000,000	440,000	5.00
2009-1	June 11, 2009	50,000,000	21,220,000	4.39
2009-2	September 30, 2009	75,000,000	29,440,000	4.06
2010-1	October 13, 2010	120,700,000	53,205,000	3.57
2011-1	December 1, 2011	141,255,000	85,050,000	3.80
2012-1	July 19, 2012	133,110,000	84,555,000	3.26
2012-2	November 15, 2012	<u>97,625,000</u>	<u>67,530,000</u>	2.92
TOTAL		<u>\$1,287,690,000</u>	<u>\$499,545,000</u>	

(1) Bond yield.

As of June 30, 2016, 8,723 mortgage loans in the approximate aggregate principal amount of \$559,594,276 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets, including mortgage loans purchased with bond proceeds, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. The mortgage credit certificate may provide assistance to a maximum of approximately \$217,900,000 in aggregate principal amount of single family mortgage loans by the program end date of December 31, 2017. To be eligible for the mortgage credit certificate program, loans must close prior to the program end date and such loans may not be funded with proceeds of qualified mortgage bonds such as the Issue 2016-2 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets, other than its mortgage assets (the “non-mortgage assets”). These non-mortgage assets are invested only in investments authorized by the Act, THDA’s investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA’s investment of THDA non-mortgage assets to the Executive Director of THDA.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bonds certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds certificates will be printed and delivered.

RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES

General

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2016-2 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

THDA's current income limits range from \$56,100 to \$95,900 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

THDA has agreements with qualified financial institutions to service THDA Program Loans ("Servicers"). Originating Agents, who also qualify as Servicers, may service the Program Loans they originate. If an Originating Agent declines to service these Program Loans, the Originating Agent, with the approval of THDA, may choose another Servicer to do so. Servicers may be mortgage banking firms or commercial banks. A Servicer may transfer any or all of the Program Loans it services to another approved Servicer, with prior THDA approval. THDA Servicers currently are U.S. Bank and Pinnacle Bank (successor to Magna Bank).

THDA is authorized to service Program Loans but, to date, has not undertaken the servicing function for Program Loans. As set forth under the heading "THDA-Executive Staff Members", THDA hired a Director of Mortgage Servicing in February 2016 and is in the process of developing the infrastructure and staffing necessary for self-servicing of Program Loans. THDA anticipates that it will commence servicing Program Loans in late fall 2016 by bringing in-house the portfolio currently serviced by Pinnacle Bank. THDA anticipates servicing all new production beginning in early 2017. Thereafter, THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

THDA requires regular reports from Servicers updating the total number of Program Loans serviced and providing certain information for each Program Loan including, without limitation, delinquency and foreclosure data. THDA's agreements with Servicers (the "Servicing Agreements") provide for the collection and remittance of Program Loan payments to THDA or a designated depository. The Servicers' records relating to serviced Program Loans are subject to examination by THDA's Single Family and Internal Audit Divisions.

THDA provides each Servicer with a Guide for Servicers which sets forth complete requirements and procedures for servicing Program Loans. THDA may terminate any Servicing Agreement when there is inadequate performance by the Servicer. THDA may also require that a Servicer purchase any Program Loan from THDA at any time THDA suffers or is threatened with a material loss by reason of a Servicer's failure to perform its obligations with respect to the Program Loans under the Servicing Agreement. For information about Servicing Agreements and substantive requirements relating to servicing Program Loans, see Appendix C.

October 18, 2016

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$24,615,000 Issue 2016-2A (AMT)
\$100,385,000 Issue 2016-2B (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$24,615,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2016-2A (AMT) (the "Issue 2016-2A Bonds"), and \$100,385,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2016-2B (Non-AMT) (the "Issue 2016-2B Bonds" and, together with the Issue 2016-2A Bonds, the "Issue 2016-2 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2016-2 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on May 24, 2016, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on September 13, 2016 (together, the "Supplemental Resolution," and, together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2016-2 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2016-2 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2016-2 Bonds are being issued to refund certain outstanding obligations of THDA and to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2016-2 Bonds in order that interest on the Issue 2016-2 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2016-2 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.

2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.
3. The Issue 2016-2 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.
4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2016-2 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.
5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2016-2 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.
6. The Issue 2016-2 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.
7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2016-2 Bonds is excluded from gross income of the owners thereof for federal income tax purposes; (ii) interest on the Issue 2016-2A Bonds will be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on the Issue 2016-2B Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.
8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2016-2 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2016-2 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2016-2 Bonds may have to take interest on such Issue 2016-2 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2016-2 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2016-2 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2016-2 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES**Delinquencies and Foreclosures as of June 30, 2016*

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.79%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	154	\$14,078,803	1.78%	1.32% ⁽⁴⁾
VA Guaranteed	4	425,812	1.75	0.85
Privately Insured	1	60,180	0.38	0.41
USDA/RD Guaranteed.....	11	730,297	1.76	(5)
Uninsured.....	<u>11</u>	<u>599,947</u>	3.30	(5)
TOTAL	<u>181</u>	<u>\$15,895,039⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.48%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	392	\$30,675,684	4.54%	2.19% ⁽⁴⁾
VA Guaranteed	14	1,029,600	6.14	1.54
Privately Insured	11	793,504	4.21	0.71
USDA/RD Guaranteed.....	27	2,046,327	4.31	(5)
Uninsured.....	<u>8</u>	<u>475,352</u>	2.40	(5)
TOTAL	<u>452</u>	<u>\$35,020,467⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bonds issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding 1974 General Resolution Transferred Loans transferred to the General Resolution as of June 30, 2014. The delinquency and foreclosure data does not include data regarding Transferred Program Loans expected to be transferred to the General Resolution in connection with the Offered Bonds.

The overall rate of Program Loans in foreclosure was 0.39%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of June 30, 2016 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2016, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	37	\$3,457,063	0.43%	0.73% ⁽⁴⁾
VA Guaranteed	2	98,457	0.88	0.84
Privately Insured	0	0	0.00	0.30
USDA/RD Guaranteed.....	0	0	0.00	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>39</u>	<u>\$3,555,520</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of March 31, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.57%, based on a total of 9,444 Program Loans as of March 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	122	\$10,164,258	1.50%	1.09% ⁽⁴⁾
VA Guaranteed	6	707,269	2.69	0.70
Privately Insured	4	269,086	2.31	0.40
USDA/RD Guaranteed.....	7	542,870	1.16	(5)
Uninsured.....	9	572,807	2.84	(5)
TOTAL	<u>148</u>	<u>\$12,256,290</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.17%, based on a total of 9,444 Program Loans as of March 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	346	\$26,591,556	4.26%	2.50% ⁽⁴⁾
VA Guaranteed	10	712,701	4.48	1.53
Privately Insured	6	359,584	3.47	0.77
USDA/RD Guaranteed.....	24	1,884,229	3.99	(5)
Uninsured.....	8	400,949	2.52	(5)
TOTAL	<u>394</u>	<u>\$29,949,019</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.64%, based on a total of 9,444 Program Loans as of March 31, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2016 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2016, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	55	\$5,165,817	0.68%	0.84% ⁽⁴⁾
VA Guaranteed	3	246,218	1.35	0.87
Privately Insured	0	0	0.00	0.31
USDA/RD Guaranteed.....	2	124,769	0.33	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>60</u>	<u>\$5,536,805</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of December 31, 2015

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.05%, based on a total of 9,187 Program Loans as of December 31, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2015, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2015

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	159	\$12,734,851	2.02%	1.40% ⁽⁴⁾
VA Guaranteed	7	535,395	3.15	0.87
Privately Insured	2	116,656	1.14	0.45
USDA/RD Guaranteed.....	13	801,976	2.12	(5)
Uninsured.....	<u>7</u>	<u>489,121</u>	2.17	(5)
TOTAL	<u>188</u>	<u>\$14,678,000</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.04%, based on a total of 9,187 Program Loans as of December 31, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2015, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2015

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	323	\$24,826,626	4.11%	2.52% ⁽⁴⁾
VA Guaranteed	10	844,972	4.50	1.71
Privately Insured	6	288,704	3.43	0.84
USDA/RD Guaranteed.....	23	1,786,082	3.75	(5)
Uninsured.....	<u>9</u>	<u>497,954</u>	2.79	(5)
TOTAL	<u>371</u>	<u>\$28,244,338</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.82%, based on a total of 9,187 Program Loans as of December 31, 2015 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of December 31, 2015 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2015, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	71	\$6,302,318	0.90%	1.59% ⁽⁴⁾
VA Guaranteed	2	93,518	0.90	1.00
Privately Insured	0	0	0.00	0.32
USDA/RD Guaranteed.....	2	150,812	0.33	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>75</u>	<u>\$6,546,648</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of September 30, 2015

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.95%, based on a total of 8,311 Program Loans as of September 30, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2015, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	142	\$ 9,999,459	1.98%	1.34% ⁽⁴⁾
VA Guaranteed	6	569,317	2.96	0.95
Privately Insured	0	0	0.00	0.47
USDA/RD Guaranteed.....	10	571,925	1.96	(5)
Uninsured.....	4	234,799	1.38	(5)
TOTAL	<u>162</u>	<u>\$11,375,500</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2015.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 3.60%, based on a total of 8,311 Program Loans as of September 30, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2015, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	271	\$21,077,550	3.79%	2.64% ⁽⁴⁾
VA Guaranteed	7	376,411	3.45	1.78
Privately Insured	2	52,059	1.28	0.83
USDA/RD Guaranteed.....	16	1,175,434	3.14	(5)
Uninsured.....	<u>3</u>	<u>120,944</u>	1.04	(5)
TOTAL	<u>299</u>	<u>\$22,802,398</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.83%, based on a total of 8,311 Program Loans as of September 30, 2015 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2015 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2015, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	58	\$5,514,667	0.81%	1.70% ⁽⁴⁾
VA Guaranteed	1	112,137	0.49	1.07
Privately Insured	3	191,336	1.92	0.32
USDA/RD Guaranteed.....	7	465,250	1.38	(5)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(5)
TOTAL	<u>69</u>	<u>\$6,283,390</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these



Tennessee Housing
Development Agency

Interest on the Issue 2016-3 Bonds is includable in the gross income of the recipient thereof for federal tax purposes. Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2016-3 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2016-3 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY**Residential Finance Program Bonds****\$62,000,000 Issue 2016-3 (Federally Taxable)****Dated: Date of Delivery****Due: As shown on inside front cover**

The Issue 2016-3 Bonds (the "Issue 2016-3 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on July 1, 2017, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about November 17, 2016.

RAYMOND JAMES**CITIGROUP****RBC CAPITAL MARKETS****AVONDALE PARTNERS****J.P. MORGAN****FTN FINANCIAL CAPITAL MARKETS****WELLS FARGO SECURITIES**

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$62,000,000 Issue 2016-3 (Federally Taxable)

\$44,455,000 Serial Bonds						
<u>Year</u>	<u>Principal Amount Due January 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>	<u>Principal Amount Due July 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
2017				\$1,635,000	1.000%	880461LP1
2018	\$1,835,000	1.150%	880461LQ9	1,845,000	1.250	880461LR7
2019	1,860,000	1.461	880461LS5	1,875,000	1.561	880461LT3
2020	1,890,000	1.745	880461LU0	1,910,000	1.845	880461LV8
2021	1,925,000	1.945	880461LW6	1,945,000	2.045	880461LX4
2022	1,970,000	2.129	880461LY2	1,990,000	2.229	880461LZ9
2023	2,015,000	2.329	880461MA3	2,040,000	2.379	880461MB1
2024	2,065,000	2.454	880461MC9	2,095,000	2.554	880461MD7
2025	2,125,000	2.604	880461ME5	2,155,000	2.654	880461MF2
2026	2,185,000	2.704	880461MG0	2,220,000	2.804	880461MH8
2027	2,255,000	2.854	880461MJ4	2,290,000	2.954	880461MK1
2028	2,330,000	3.004	880461ML9			

\$17,545,000 Term Bonds			
<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
July 1, 2031 (PAC)	\$17,545,000	3.50%	880461MM7

PRICE OF ISSUE 2016-3 BONDS DUE JULY 1, 2031 (PAC): 103.848%

PRICE OF ALL REMAINING ISSUE 2016-3 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY
Residential Finance Program Bonds
\$62,000,000 Issue 2016-3 (Federally Taxable)

INTRODUCTION

This Official Statement (the "Official Statement") provides certain information in connection with the issuance by the Tennessee Housing Development Agency ("THDA") of its Residential Finance Program Bonds, Issue 2016-3 in the aggregate principal amount of \$62,000,000 (the "Issue 2016-3 Bonds" or the "Offered Bonds").

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the "Act"). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on September 20, 2016, as amended and supplemented (the "Issue 2016-3 Supplemental Resolution"). The General Resolution and the Issue 2016-3 Supplemental Resolution are herein collectively referred to as the "Resolution."

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2016-3 Bonds on September 13, 2016.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of August 31, 2016 (unaudited), Bonds in the aggregate principal amount of \$932,265,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$490,420,000 were outstanding under THDA's Homeownership Program Resolution (the "1985 General Resolution"), and bonds in the aggregate principal amount of \$375,910,000 were outstanding under THDA's Housing Finance Program Resolution (the "2009 General Resolution"). As of August 31, 2016, no bonds were outstanding under THDA's Housing Bond Resolution (Mortgage Finance Program) (the "1974 General Resolution"). All assets under the 1974 General Resolution have been transferred to the General Resolution. For more information see "RESIDENTIAL FINANCE PROGRAM LOANS-Description of Residential Finance Programs Loans-Transfer of Assets".

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption "SECURITY AND SOURCES OF PAYMENT OF BONDS". All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the "Bonds". The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the "Public Pledge Act"). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee's codification of Article 9 of the Uniform Commercial Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of

the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects to use the proceeds from the issuance of the Issue 2016-3 Bonds to (i) refund all Issue 2007-2 and Issue 2007-3 Bonds issued and outstanding under the 1985 General Resolution (the "Prior Bonds"), (ii) make a deposit to the Bond Reserve Fund, and (iii) pay Costs of Issuance, Underwriters' Fee, and other transaction costs. As a result of the refunding, mortgage loans previously allocable to the Prior Bonds in an expected aggregate outstanding amount of approximately \$69,768,995 will be allocated to the Offered Bonds (the "Transferred Program Loans"). See "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS" for information about the Transferred Program Loans. In addition, other investments allocable to the Prior Bonds in the projected amount of approximately \$919,074 will be transferred to accounts established for the Offered Bonds under the General Resolution (the "Transferred Investments"). It is anticipated that the Prior Bonds will be redeemed prior to maturity on January 1, 2017, at a redemption price of 100% of the principal amount thereof plus accrued interest. No assurance can be provided that the Prior Bonds will actually be refunded.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution, including the Transferred Program Loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of June 30, 2016 (unaudited), 10,085 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$935,160,916. Based on the outstanding principal balance of Program Loans as of June 30, 2016, approximately 88.84% were FHA insured, approximately 2.22% were VA guaranteed, approximately 2.10% were insured by private mortgage insurance companies, approximately 4.56% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.28% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See "RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data" and Appendix B under the heading "Private Mortgage Insurance Programs. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

U.S. Bank National Association (the "Trustee") is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2016-3 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2016-3 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D "2013 GENERAL RESOLUTION". Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, ("DTC"), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each series and maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such series and maturity, will be registered in the name of Cede & Co.,

as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F “BOOK-ENTRY-ONLY SYSTEM” for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2016-3 Bonds and is payable on July 1, 2017, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2016-3 Bonds maturing on July 1, 2031, are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2028, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2016-3 PAC Term Bonds Due July 1, 2031			
<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>	
2028		\$2,370,000	
2029	\$2,410,000	2,460,000	
2030	2,505,000	2,550,000	
2031	2,600,000	2,650,000	(maturity)

Optional Redemption. Except as otherwise described in the follow paragraph, the Issue 2016-3 Bonds maturing on and after July 1, 2026, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after January 1, 2026, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2016-3 Principal Payments (as defined below). Any Excess 2016-3 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing July 1, 2017; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2016-3 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Transferred Program Loans are equal to or less than 400% PSA (as defined below under “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds”), as determined by THDA, then available Excess 2016-3 Principal Payments shall first be applied to redeem PAC Bonds up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds and the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Transferred Program Loans are in excess of 400% PSA, as determined by THDA, then available Excess 2016-3 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds shall first be applied to redeem PAC Bonds and the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an “Excess Principal PAC Bond Redemption”); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2016-3 Principal Payments which is in excess of 400% PSA, and (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds’ proportionate amount of all Issue 2016-3 Bonds then Outstanding.

“Excess 2016-3 Principal Payments” means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Transferred Program Loans to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

“Planned Amortization Amount” means the dollar amount applicable to the PAC Bonds for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the PAC Bonds assumed to be redeemed from Excess 2016-3 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Transferred Program Loans. See “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds” for a description of PSA prepayment rates.

The Planned Amortization Amounts for the PAC Bonds (which assumes the allocation of the Transferred Program Loans to the Offered Bonds in an aggregate principal amount of approximately \$69,768,995 with an approximate weighted average maturity of 248 months, and receipt of principal prepayments on the Transferred Program Loans at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedule

<u>Date</u>	<u>Issue 2016-3 PAC Bonds Planned Amortization Amount</u>
July 1, 2017	\$ 1,655,000
January 1, 2018	3,690,000
July 1, 2018	5,595,000
January 1, 2019	7,375,000
July 1, 2019	9,020,000
January 1, 2020	10,550,000
July 1, 2020	11,950,000
January 1, 2021	13,230,000
July 1, 2021	14,405,000
January 1, 2022	15,450,000
July 1, 2022	16,395,000
January 1, 2023	17,220,000
July 1, 2023	17,545,000

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Transferred Program Loans at various speeds, see “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds.”

Special Optional Redemption of the Offered Bonds, including Cross Calls The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) except as otherwise described under the headings “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, repayments and prepayments of Transferred Program Loans in excess of regularly scheduled debt service payments on the Offered Bonds; (ii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, “Code”), (iii) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (iv) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (i) above as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds” and (b) shall not be subject to redemption as described in clauses (ii), (iii) and (iv) above if such redemption would cause amortization of the PAC Bond to exceed the related Planned Amortization Amount shown above in the PAC Bonds Amortization Schedule. The Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable. See "ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments" and "ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices".

Selection By Lot

If less than all of the Issue 2016-3 Bonds of like series and maturity are to be redeemed, the particular Issue 2016-3 Bonds of such series and maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

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APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2016-3 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 62,000,000.00
Premium on Issue 2016-3 PAC Bond	675,131.60
Transferred Program Loans	69,768,994.74
Transferred Investments	919,074.49
TOTAL SOURCES	<u>\$ 133,363,200.83</u>

USES

Transferred Program Loans	\$ 69,768,994.74
Redemption of Prior Bonds	62,000,000.00
Deposit to Bond Reserve Fund	1,052,027.13
Costs of Issuance	170,800.00
Underwriters' Fee	371,378.96
TOTAL USES	<u>\$ 133,363,200.83</u>

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption

Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumption that Transferred Program Loans in the aggregate principal amount of approximately \$69,768,995, with a weighted average maturity of approximately 248 months and a weighted average interest rate of approximately 5.61%, will be allocated to the Offered Bonds. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Transferred Program Loans and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

In recent years a number of financial institutions and related entities have announced large losses as a result of their mortgage activities and the increasing number of defaults and foreclosures on such mortgages. The United States Congress has passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), and may pass additional consumer protection and bankruptcy legislation, as a result of the adverse effects of the mortgage situation on individuals and families in the United States. Likewise, the Tennessee General Assembly may enact consumer protection legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA’s single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA’s activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA’s single-family loans could adversely affect the THDA’s ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans (including Transferred Program Loans) will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Transferred Program Loans or Program Loans of other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bond,” and “- Special Optional Redemption of the Offered Bonds, including Cross Calls”.

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds.”

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA’s general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA’s current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution

including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA's determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D "2013 GENERAL RESOLUTION" for a description of Program Expenses. THDA expects to use funds on deposit in the Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters' fees, initial Trustee's fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see "THDA – THDA Funds". THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; and (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term "weighted average life" refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Transferred Program Loans is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term "prepayment" includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association ("PSA")) prepayment standard or model (commonly referred to as the "PSA Prepayment Model").

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, "0% PSA" assumes no prepayments of principal on the Program Loans. "25% PSA" assumes the principal of Program

Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. “50% PSA” assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. “75% PSA” assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. “100% PSA” assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. “150% PSA” assumes the principal of Program Loans will prepay at a rate 1.50 times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “200% PSA” assumes the principal of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. “300% PSA” assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “400% PSA” assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “500% PSA” assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors’ housing needs, job transfers, unemployment and mortgagors’ net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Transferred Program Loans may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under “Changes in Federal or State Law” above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Transferred Program Loans and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds”, and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) approximately \$69,768,995 of Transferred Program Loans with an approximate weighted average maturity of 248 months and an approximate weighted average interest rate of 5.61% will be allocated to the Offered Bonds, (ii) Excess 2016-3 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iii) the PAC Bonds will be redeemed only in the Planned Amortization Amounts as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds” and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate. For certain information regarding Transferred Program Loans see “DESCRIPTION OF TRANSFERRED PROGRAM LOANS” herein.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>Issue 2016-3 PAC Bond Average Life (in years)</u>
0%	11.8
25	8.6
50	6.2
75	4.2
100	3.0
200	3.0
300	3.0
400	3.0
500	2.4

RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

THDA has issued \$1,087,205,000 total original principal amount of bonds under the General Resolution, of which \$932,265,000 (unaudited) were outstanding as of August 31, 2016, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of August 31, 2016 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$145,105,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	91,425,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	127,335,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	134,110,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	142,650,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	166,640,000	3.25
Issue 2016-1	May 18, 2016	<u>125,000,000</u>	<u>125,000,000</u>	2.68
TOTAL		<u>\$1,087,205,000</u>	<u>\$932,265,000</u>	

(1) Bond yield.

THDA sold Issue 2016-2 under the 2013 General Resolution in the aggregate principal amount of \$125,000,000 on September 14, 2016, which will be issued on October 18, 2016. THDA expects that a portion of the proceeds generated from the sale of Issue 2016-2 will be used to refund Issue 2007-1 bonds outstanding under the 1985 General Resolution and certain program loans and investments allocated to such bonds being refunded will be transferred from the 1985 General Resolution to the 2013 General Resolution. THDA expects that all remaining lendable proceeds from the sale of Issue 2016-2 will be used to purchase Program Loans that will be security for the Issue 2016-2 Bonds on parity with all other bonds then outstanding under the 2013 General Resolution.

Origination Experience

THDA's experience from May 30, 2013, to August 31, 2016, regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

<u>Issue of Bonds</u>	<u>Lendable Proceeds⁽²⁾</u>	<u>Program Loans Financed⁽³⁾ as of August 31, 2016</u>		<u>Weighted Average Interest Rate⁽⁴⁾</u>
		<u>Amount</u>	<u>%</u>	
Issue 2013-1	\$135,268,395	\$135,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	<u>92,340,000</u>	<u>92,340,000</u>	100.00	4.42
TOTAL	<u>\$803,408,875</u>	<u>\$803,408,716</u>		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included. All lendable proceeds with respect to the Issue 2016-1 Bonds were committed as of July 25, 2016.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. The THDA Household Income Limits range from \$56,100 to \$95,900 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. To date, all Supplemental Resolutions provide that the Program Loans to be financed with proceeds of the related series of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date, including the Transferred Program Loans, were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. Transferred Program Loans financed prior to September 30, 2013, are Great Rate, Great Advantage, Great Start or Homeownership for the Brave Program Loans. On and after October 1, 2013, the THDA primary loan program includes Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. On and after October 1, 2013, THDA provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below.

Although THDA is authorized to implement a program for the origination of conventional mortgage loans to be pooled into mortgage-backed securities guaranteed as to timely payment of principal and interest by the Federal National Mortgage Association ("Fannie Mae" and "Fannie Mae Securities"), THDA does not currently expect to move forward with such a program.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 3.99%. From and after October 3, 2016, the interest rate for Great Choice Program Loans will be 3.75%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans. From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans in a principal amount equal to 4% of the purchase price of the property purchased. From October 1, 2014, to September 30, 2016, Great Choice Plus Loans are 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, each Great Choice Plus loan will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

For applications received on or after October 3, 2016, Great Choice Plus Loans will be thirty year 0% interest rate second lien loans in a principal amount up to 5% of the purchase price of the property purchased. No monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. The full original amount will be forgiven at the end of the thirty year term.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA and will not be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable. As of June 30, 2016 (unaudited), 89 New Start Program Loans, with an aggregate principal balance of approximately \$4,462,537, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction. As of June 30, 2016 (unaudited), 208 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$23,294,791, were outstanding under the General Resolution. Eligible borrowers will also be eligible for Great Choice Plus loans. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became Transferred Program Loans allocable to the Issue 2013-1 Bonds under the General Resolution. As of June 30, 2016 (unaudited), 202 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$12,354,063, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers who had loan applications dated on or before September 30, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds.

An amount equal to 4% of the loan amount was made available as a grant to borrowers for downpayment and closing cost assistance in connection with Great Start Program Loans. An amount equal to 2% of the loan amount was made available as a grant to borrowers for downpayment and closing cost assistance in connection with Great Advantage Program Loans. THDA financed this downpayment and closing cost assistance from excess revenues available outside the General Resolution and retains a portion of the interest collected on Great Start Program Loans and Great Advantage Program Loans to reimburse itself for the amount of this assistance.

As of June 30, 2016, 1,875 Great Rate, 41 Great Advantage, and 1,788 Great Start Program Loans, with an aggregate principal balance of approximately \$319,809,283, were outstanding under the General Resolution.

Although Transferred Program Loans include Great Rate or Great Start Program Loans, THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of June 30, 2016 (unaudited), 10,085 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$935,160,916 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 310.44 months and an approximate weighted average interest rate of 4.42%.

All tables under this heading, "Residential Finance Program Portfolio Data", include data about 1974 General Resolution Transferred Loans, but do not include data about Transferred Program Loans. For more information about 1974 General Resolution Transferred Loans see "RESIDENTIAL FINANCE PROGRAM LOANS-Description of Residential Finance Program Loans-Transfer of Assets". For more information about Transferred Program Loans see "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS".

Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of June 30, 2016 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured	8,637	\$830,803,179	85.64%	88.84%
VA Guaranteed	228	20,789,075	2.26	2.22
Privately Insured	261	19,624,438	2.59	2.10
USDA/RD Guaranteed	626	42,649,354	6.21	4.56
Uninsured ⁽²⁾	<u>333</u>	<u>21,294,870</u>	<u>3.30</u>	<u>2.28</u>
TOTAL	<u>10,085</u>	<u>\$935,160,916⁽⁴⁾</u>	<u>100.00%⁽⁴⁾</u>	<u>100.00%⁽⁴⁾</u>

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution upon the refunding of other THDA obligations, including certain of the Transferred Program Loans, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of June 30, 2016 (unaudited), 261⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$19,624,438 were outstanding under the General Resolution. As of June 30, 2016 (unaudited), THDA had the following information regarding the private mortgage insurers for 198 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance</u> ⁽³⁾	<u>Percent of Total Number of Program Loans</u> ⁽³⁾	<u>Percent of Total Outstanding Balance of Program Loans</u> ⁽³⁾
Commonwealth/CMAC	3	\$ 86,690	0.03%	0.01%
Genworth Mortgage Insurance Corp. (GE)	67	5,766,118	0.66	0.62
MGIC	61	5,119,705	0.60	0.55
PMI Mortgage Insurance Co. ⁽²⁾	2	149,839	0.02	0.02
Radian Guaranty Inc.	6	343,679	0.06	0.04
Republic Mortgage Insurance Corporation	22	1,316,997	0.22	0.14
Triad Guaranty Insurance Corporation ⁽²⁾	9	630,480	0.09	0.07
United Guaranty Residential Insurance Co.	<u>28</u>	<u>2,321,390</u>	<u>0.28</u>	<u>0.25</u>
TOTAL	<u>198</u>	<u>\$15,734,899</u> ⁽⁴⁾	1.96% ⁽⁴⁾	1.68% ⁽⁴⁾

(1) The private mortgage insurer is not identified with respect to 63 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA compiled data with respect to individual private mortgage insurance providers.

(2) In accordance with judicial actions instituted by their respective state insurance regulators, PMI Mortgage Insurance Co. and Triad Guaranty Insurance Corporation currently are paying claims at the rates of \$.70 per \$1.00 and \$.75 per \$1.00, respectively.

(3) Rounded figures.

(4) Rounded total.

Program Loan Interest Rates

The following table summarizes, as of June 30, 2016 (unaudited), the interest rates of the outstanding Program Loans:

<u>Mortgage Rates (%)</u>	<u>Number of Program Loans</u> ⁽¹⁾	<u>Outstanding Balance</u> ⁽²⁾	<u>Percent of Total Number of Program Loans</u> ⁽²⁾	<u>Percent of Total Outstanding Balance</u> ⁽²⁾
0.00-2.99	154	\$ 7,311,937	1.53%	0.78%
3.00-3.99	2,873	333,283,334	28.49	35.64
4.00-4.49	3,078	362,691,692	30.52	38.78
4.50-4.99	675	51,853,879	6.69	5.54
5.00-5.49	742	59,372,886	7.36	6.35
5.50-5.99	1,195	59,982,569	11.85	6.41
6.00-6.49	333	25,533,113	3.30	2.73
6.50-6.99	517	21,780,273	5.13	2.33
7.00-7.49	220	6,364,988	2.18	0.68
7.50-7.99	214	4,890,575	2.12	0.52
8.00-8.49	79	2,020,626	0.78	0.22
8.50-9.49	4	66,252	0.04	0.01
9.50-12.00	<u>1</u>	<u>8,793</u>	<u>0.01</u>	<u>0.00</u>
TOTAL	<u>10,085</u>	<u>\$935,160,916</u> ⁽³⁾	<u>100.00%</u> ⁽³⁾	<u>100.00%</u> ⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have passed with no payment received by the last business day of the month in which the second payment was due are considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more

days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

The financial institutions who service Program Loans manage delinquencies by working with borrowers in an attempt to avoid defaults and by sending payment requests to borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

Delinquencies and Foreclosures as of June 30, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.79%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2016				
Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	154	\$14,078,803	1.78%	1.32% ⁽⁴⁾
VA Guaranteed	4	425,812	1.75	0.85
Privately Insured	1	60,180	0.38	0.41 ⁽⁵⁾
USDA/RD Guaranteed.....	11	730,297	1.76	⁽⁶⁾
Uninsured.....	<u>11</u>	<u>599,947</u>	3.30	⁽⁶⁾
TOTAL	<u>181</u>	<u>\$15,895,039⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.48%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	392	\$30,675,684	4.54%	2.19% ⁽⁴⁾
VA Guaranteed	14	1,029,600	6.14	1.54
Privately Insured	11	793,504	4.21	0.71 ⁽⁵⁾
USDA/RD Guaranteed.....	27	2,046,327	4.31	(6)
Uninsured.....	<u>8</u>	<u>475,352</u>	2.40	(6)
TOTAL	<u>452</u>	<u>\$35,020,467</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.39%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of June 30, 2016 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2016, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	37	\$3,457,063	0.43%	0.73% ⁽⁴⁾
VA Guaranteed	2	98,457	0.88	0.84
Privately Insured	0	0	0.00	0.30 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	(6)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(6)
TOTAL	<u>39</u>	<u>\$3,555,520</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS

General

As of August 31, 2016, the Transferred Program Loans have an approximate weighted average maturity of 251.26 months and a weighted average interest rate of 5.61% per annum. Average prepayment rate information for the Transferred Program Loans is discussed in “DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS – Prepayment Experience of Transferred Program Loans” below. It is anticipated that the characteristics of the pool of Transferred Program Loans will be substantially similar to the loans described below (such information below is as of August 31, 2016; the Transferred Program Loans will not be allocable to the Offered Bonds until November 17, 2016, and Transferred Program Loan characteristics may change from August 31, 2016, to November 17, 2016).

Transferred Program Loans by Loan Type

<u>Type of Mortgage</u>	<u>Number</u>	<u>Principal Amount</u> ⁽³⁾	<u>% of Transferred Principal Amount</u>
FHA Insured	192	\$17,391,609	24.23%
VA Guaranteed	14	1,256,496	1.75
Privately Insured ⁽¹⁾	452	41,643,314	58.02
USDA/RD Guaranteed	89	7,476,096	10.42
Uninsured ⁽²⁾	<u>58</u>	<u>4,001,480</u>	<u>5.58</u>
TOTAL	<u>805</u>	<u>\$71,768,995</u> ⁽⁴⁾	100.00%

(1) This includes Program Loans for which private mortgage insurance was in place at the time of the closing of the respective Program Loan.

(2) Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, and Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Transferred Program Loans

Each private mortgage insurer insuring conventional, privately insured THDA Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least ‘AA’ by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured THDA Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least ‘AA’ by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of August 31, 2016 (unaudited), 452⁽¹⁾ privately insured Transferred Program Loans having an aggregate principal balance of approximately \$41,643,314 were outstanding. As of August 31, 2016 (unaudited), THDA had the following information regarding the private mortgage insurers for 437 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance</u> ⁽²⁾	<u>Percent of Total Number of Program Loans</u> ⁽²⁾	<u>Percent of Total Outstanding Balance of Program Loans</u> ⁽²⁾
Genworth Mortgage Insurance Corp. (GE)	200	\$18,506,860	24.84%	25.79%
MGIC	163	14,881,318	20.25	20.74
Republic Mortgage Insurance Corporation	13	1,477,489	1.61	2.06
United Guaranty Residential Insurance Co.	<u>61</u>	<u>5,342,618</u>	<u>7.58</u>	<u>7.44</u>
TOTAL	<u>437</u>	<u>\$40,208,286</u> ⁽³⁾	<u>54.29%</u> ⁽³⁾	56.02% ⁽³⁾

(1) The private mortgage insurer is not identified with respect to 15 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA compiled data with respect to individual private mortgage insurance providers.

(2) Rounded figures.

(3) Rounded total.

Prepayment Experience of Transferred Program Loans

The Transferred Program Loans are composed of mortgage loans originally allocable to the Prior Bonds. The table set forth below lists the actual average prepayment rate (principal only) experience as a percentage of the PSA Prepayment Model of the mortgage loans allocable to the Prior Bonds for the 3 month, 6 month and 12 month periods ended on August 31, 2016, based on principal prepayment data available to THDA.

<u>Issue</u>	<u>3 Months</u>	<u>6 Months</u>	<u>12 Months</u>	<u>Since Inception</u>	<u>Weighted Average Interest Rate</u>
Issue 2007-2	438%	363%	348%	213%	5.57%
Issue 2007-3	410%	413%	375%	231%	5.65%
Weighted Average	423%	391%	363%	223%	5.61%

Delinquency Information for the Transferred Program Loans

The overall delinquency rate for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.61%, based on a total of 805 Transferred Program Loans as of August 31, 2016 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due as of August 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF AUGUST 31, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA</u> ⁽³⁾
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	11	\$933,243	5.73%	1.32% ⁽⁴⁾
VA Guaranteed	2	170,821	14.29	0.85
Privately Insured	8	746,590	1.77	0.41 ⁽⁵⁾
USDA/RD Guaranteed	0	0	0.00	(6)
Uninsured	<u>0</u>	<u>0</u>	0.00	(6)
TOTAL	<u>21</u>	<u>\$1,850,654</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate for the Transferred Program Loans that were ninety (90) days past due was 7.83%, based on a total of 805 Transferred Program Loans as of August 31, 2016 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were ninety (90) days past due as of August 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF AUGUST 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	31	\$3,087,513	16.15%	2.19% ⁽⁴⁾
VA Guaranteed	0	0	0.00	1.54
Privately Insured	21	1,716,756	4.65	0.71 ⁽⁵⁾
USDA/RD Guaranteed.....	9	679,545	10.11	(6)
Uninsured.....	<u>2</u>	<u>112,631</u>	3.45	(6)
TOTAL	<u>63</u>	<u>\$5,596,444</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The rate of Transferred Program Loans in foreclosure was 1.24%, based on a total of 805 Transferred Program Loans as of August 31, 2016 (unaudited).

The foreclosure rate by loan type for the Transferred Program Loans in foreclosure as of August 31, 2016 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA, by loan type, for the quarter ending June 30, 2016, are shown in the following table:

IN FORECLOSURE AS OF AUGUST 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	3	\$313,435	1.56%	0.73% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.84
Privately Insured	6	611,563	1.33	0.30 ⁽⁵⁾
USDA/RD Guaranteed.....	1	31,557	1.12	(6)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(6)
TOTAL	<u>10</u>	<u>\$956,554</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the three most recent years and for the nine months ended March 31, 2016, and March 31, 2015. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2015, 2014, and 2013, and from unaudited financial information of THDA for the nine months ended March 31, 2016 and March 31, 2015.

	Nine Months Ended March 31 (Unaudited)		Year Ended June 30 (Audited)		
Residential Finance Bond Group	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES:					
Interest on Mortgages	\$ 26,955	\$ 18,210	\$ 25,393	\$ 13,518	\$ 222
Investment Income:					
Interest	1,552	1,359	1,866	335	10
Net Increase (decrease) in the Fair Value of Investments	(180)	249	(552)	(146)	(83)
Fees and Other Income	646	29	160	-	76
	<u>28,973</u>	<u>19,847</u>	<u>26,867</u>	<u>13,707</u>	<u>225</u>
EXPENSES:					
Interest	17,893	12,194	17,058	9,087	551
Issuance Cost	1,303	1,189	2,343	2,167	1,679
Mortgage Servicing Fees	2,156	1,493	2,048	980	18
Other	917	688	1,001	239	1
	<u>22,269</u>	<u>15,564</u>	<u>22,450</u>	<u>12,473</u>	<u>2,249</u>
Excess of Revenues over Expenses	6,704	4,283	4,417	1,234	(2,024)
Net Position at beginning of period	101,055	105,707	105,707	(68,279)	-
Other Transfers	39,941	18,313	(9,069)	172,752	(66,255)
Net Position at end of period	<u>\$ 147,700</u>	<u>\$ 128,303</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>	<u>\$ (68,279) ⁽¹⁾</u>

⁽¹⁾ On May 30, 2013 THDA issued its Issue 2013-1 Bonds under the General Resolution. Proceeds of the Issue 2013-1 Bonds in an aggregate principal amount of \$75,905,000 were applied to the refunding of THDA's Issue 2003-A Bonds under the 1974 General Resolution and THDA's Issue 2004-1 Bonds under the 1985 General Resolution. While the Issue 2013-1 Bonds were issued on May 30, 2013, the assets allocable to the Issue 2003-A and the Issue 2004-1 Bonds in an aggregate amount of approximately \$99,855,200 did not transfer to the General Resolution until July 1, 2013, the date of the redemption of such bonds. As a result of such transfer, the net position of the General Resolution as of July 1, 2013, was approximately \$31,576,000 (unaudited).

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of August 31, 2016 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u>	<u>Long Term⁽²⁾</u>
	<u>Amount</u>	<u>Amount</u>
Federal Home Loan Bank Notes	\$ 35,672,003	\$ 17,630,803
Federal Home Loan Mortgage Corporation Notes	7,006,097	14,529,300
Fannie Mae Notes	0	25,540,720
Financing Corporation Bonds	0	2,615,163
United States Treasury Bonds.....	359,273	0
TOTAL.....	<u>\$ 43,037,373</u>	<u>\$ 60,315,986</u>

As of August 31, 2016 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u>	<u>Long Term⁽²⁾</u>
	<u>Amount</u>	<u>Amount</u>
Federal Home Loan Bank Notes	\$ 0	\$ 13,331,360
Federal Home Loan Mortgage Corporation Notes	0	10,469,928
Fannie Mae Notes	0	10,641,350
TOTAL.....	<u>\$ 0</u>	<u>\$ 34,442,638</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2018.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of August 31, 2016 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$1,798,595,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Brian Bills, Chairman	June 30, 2017	Sr. Vice President, Residential Mortgage Lending SunTrust Mortgage, Inc., Knoxville, TN
Kim Grant Brown	June 30, 2019	Owner, Grant & Company Collierville, TN
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Kendra Cooke	June 30, 2019	Broker, Cooke Realty Partners/Bob Parks Realty Brentwood, TN
Tre Hargett ⁽¹⁾	January, 2017	Secretary of State
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
Ronald K. Jones	June 30, 2020	Executive Director, Trevecca Towers Nashville
David H. Lillard, Jr. ⁽¹⁾	January, 2017	State Treasurer
Larry Martin ⁽¹⁾	(2)	Commissioner, Department of Finance and Administration
Todd Skelton ⁽¹⁾	(2)	Deputy Counsel to the Governor
James Sattler	June 30, 2019	Vice Chair, Chattanooga Housing Authority Board of Commissioners, Chattanooga, TN
Pieter J. van Vuuren	June 30, 2019	President & CEO, First National Bank of McMinnville McMinnville, TN
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Justin Wilson ⁽¹⁾	January, 2017	Comptroller of the Treasury
Daisy Fields	(3)	Gallatin, TN

(1) Ex officio member.

(2) Serves at pleasure of the Governor.

(3) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 221 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Servicing since February 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Administrative Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010).

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Conners & Berry (currently Bradley Arant Boulton Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999), Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the "State") amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

As of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ending June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees.

The TCRS covers three large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 57,929 active members in TCRS in the state and higher education employee group at June 30, 2016. This total includes 238 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

The most recent actuarial valuation was completed as of June 30, 2015 and established the employer contribution rates for the period July 1, 2016 through June 30, 2017. The next actuarial valuation will be as of June 30, 2016 and will establish employer contribution rates for the period July 1, 2017 through June 30, 2018. The July 1, 2013 actuarial valuation established the employer contribution rates for the two year period beginning July 1, 2014 and ending June 30, 2016.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age 60 or 30 years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute at 5% of salary to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age 65 or the rule of 90 (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan,

requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute 15.03% of salary for the period July 1, 2014 through June 30, 2016 while employees do not contribute to the plan. The July 1, 2013 actuarial valuation established the 15.03% employer contribution rate for this period. The June 30, 2015 actuarial valuation established the employer contribution rate of 15.02% that is applicable for the period July 1, 2016 through June 30, 2017.

An actuarial valuation was performed as of June 30, 2015 to determine the TCRS financial position in order to provide information related to new Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2015, the net pension liability for the state and higher education employee group based on the market value of assets was \$1.3 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 91.26%. Based on employer contributions at June 30, 2015, the proportionate share of net pension liability for THDA would be \$5.43 million.

Actuarial Data for Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, the overall 4% employer contribution rate for the period July 1, 2014 - June 30, 2016, consists of 3.87% for general employees, with the employer rate for judicial and public safety employees being higher at 7.00% and 4.62%, respectively. The employer contribution rate for general employees of 3.87% consists of 2.00% for the ADC and 1.87% for the stabilization reserve.

An actuarial valuation at June 30, 2015 established that the employer overall rate will remain at the minimum statutory level of 4%. For the period July 1, 2016 - June 30, 2017, the employer rate for general employees will be 3.94% while the employer rate for judicial and public safety employees will be 6.27% and 4.69%, respectively. The employer contribution rate for general employees of 3.94% consists of 1.13% for the ADC and 2.81% for the stabilization reserve.

An actuarial valuation was performed as of June 30, 2015, to determine the TCRS financial position in order to provide information related to new Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2015, the net pension asset for the state and higher education employee group based on the market value of assets was \$2.8 million, resulting in a plan fiduciary net position as a percentage of total pension liability of 142.55%. Based on employer contributions at June 30, 2015, the proportionate share of net pension asset for THDA would be \$12,700.

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THDA Employer Contributions to TCRS

For THDA, the employer contribution rate, stated as a percentage of salary, for the period beginning July 1, 2014, and ending June 30, 2016, is 15.03% based on the actuarial valuation performed as of July 1, 2013, for employees hired before July 1, 2014. For employees first hired after June 30, 2014, the employer rate is 8.87% (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions to TCRS are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	Percentage of THDA Budget
2017 ⁽¹⁾	15.03/3.94% ⁽²⁾	\$16,398,800 ⁽¹⁾⁽³⁾	\$2,340,940	2.03%
2016	15.03/3.87 ⁽²⁾	11,965,554	1,581,407	1.30
2015	15.03/3.87 ⁽²⁾	11,569,902	1,673,881	1.19
2014	15.03/	11,721,300	1,761,711	1.19
2013	15.03	11,315,872	1,692,847	1.26
2012	14.91	11,005,204	1,632,095	1.36
2011	14.91	10,593,944	1,585,654	1.25
2010	13.02	9,956,646	1,295,272	1.03
2009	13.02	9,267,262	1,201,303	0.98
2008	13.66	9,602,067	1,297,298	1.02
2007	13.58	8,644,241	1,175,459	0.96

(1) Estimated

(2) Varies depending on plan the employee is enrolled in.

(3) The increase in "Total Salary of THDA Employees" from the actual amount for the fiscal year ending June 30, 2016, to the estimated amount for the fiscal year ending June 30, 2017, is due to the additional salaries for approximately thirty-eight (38) positions THDA expects to fill in connection with the servicing activities THDA expects to undertake later in 2017.

For the fiscal year ended June 30, 2016, 177 employees made contributions to the 401(k) plan and 12 employees made contributions to the 457 plan. THDA made employer contributions to the 401(k) plan that totaled \$186,417 (which includes employer contributions to the Defined Contribution Program Plan), while employees contributed \$321,968 to the 401(k) plan and the 457 plan.

It is anticipated that there will be upward pressure on the employer contribution rate in the Closed State and Higher Education Employee Pension Plan in future actuarial valuations as deferred investment losses that have been actuarially smoothed are recognized over the next ten years.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

The state provides an additional voluntary defined contribution plan to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The

program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

General Information about the 401(k) and 457 Defined Contribution Plans

Employee contribution limits to the 401(k) plan are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

For the fiscal year ended June 30, 2015, 173 THDA employees made contributions to the 401(k) plan and 10 THDA employees made contributions to the 457 plan. THDA made employer contributions to the 401(k) plan that totaled \$86,335 while THDA employees contributed a total of \$243,815 to the 401(k) plan and the 457 plan.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 43 and 45) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2015, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used a projected unit credit actuarial cost method, indicates that for the fiscal year ended June 30, 2016, the total unfunded actuarial liability of THDA is approximately \$2,923,000 and the annual required contribution for THDA is approximately \$341,000. The annual required contribution consists of the normal cost (the portion of the actuarial present value of OPEB benefits which is allocated to a valuation year by the actuarial cost method) and an amortization of the unfunded actuarial liability. The report may be reviewed at <http://www.tennessee.gov/finance/act/OPEB.html>. The State is not currently funding any actuarially determined OPEB liability, and will continue to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for the fiscal year. The State will charge THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered on the date of issuance of the Issue 2016-3 Bonds, under existing laws, regulations, rulings and judicial decisions, interest on the Issue 2016-3 Bonds is includable in the gross income of the recipients thereof for federal income tax purposes.

The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the Issue 2016-3 Bonds. The summary is based upon the provisions of the Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change or possible differing interpretations. The summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject

to special treatment under the federal income tax laws. Potential purchasers of the Issue 2016-3 Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the Issue 2016-3 Bonds.

Although there are not any regulations, published rulings or judicial decisions involving the characterization for federal income tax purposes of securities with terms substantially the same as the Issue 2016-3 Bonds, Bond Counsel has advised THDA that the Issue 2016-3 Bonds will be treated for federal income tax purposes as evidences of indebtedness of THDA and not as an ownership interest in the trust estate securing the Issue 2016-3 Bonds or as an equity interest in THDA or any other party, or in a separate association taxable as a corporation. **Interest on the Issue 2016-3 Bonds is includable in gross income for federal income tax purposes under Section 103 of the Code. Interest on the Issue 2016-3 Bonds will be fully subject to federal income taxation.** In general, interest paid on the Issue 2016-3 Bonds and recovery of accrued market discount, if any, will be treated as ordinary income to a bondholder, and principal payments will be treated as a return of capital. The Code contains special federal income tax rules for “real estate mortgage investment conduits.” THDA does not intend to treat the arrangement by which the trust estate secures the Issue 2016-3 Bonds as “real estate mortgage investment conduits.”

Market Discount. Any owner who purchases an Issue 2016-3 Bond at a price which includes market discount in excess of a prescribed *de minimis* amount (i.e., at a purchase price that is less than its adjusted issue price in the hands of an original owner) will recognize gain upon receipt of each scheduled or unscheduled principal payment. In particular, such owner will generally be required (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such an Issue 2016-3 Bond as ordinary income to the extent of any remaining accrued market discount (under this caption) or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such an owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest. Pursuant to Revenue Procedure 92-67, an election to accrue market discount on a constant interest basis is irrevocable.

An owner of an Issue 2016-3 Bond who acquires such Bond at a market discount also may be required to defer, until the maturity date of such Issue 2016-3 Bond or its earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry an Issue 2016-3 Bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such Issue 2016-3 Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Issue 2016-3 Bond for the days during the taxable year on which the owner held the Issue 2016-3 Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Issue 2016-3 Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondowner elects to include such market discount in income currently as it accrues on all market discount obligations acquired by such bondowner in that taxable year or thereafter.

Market Premium. A subsequent purchaser of an Issue 2016-3 Bond who purchases such Issue 2016-3 Bond at a cost greater than its then principal amount will be considered to have purchased such Issue 2016-3 Bond at a market premium. Under Section 171 of the Code, such a purchaser must amortize the amount of such market premium using constant yield principles based on the purchaser's yield to maturity. Amortizable market premium is generally treated as an offset to interest income, and a reduction in basis under Code Section 1016(a) of the Issue 2016-3 Bond is required for amortizable bond premium that is applied to reduce interest payments. Purchasers of any Issue 2016-3 Bond who acquire such Bond at a premium should consult with their own tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to state and local tax consequences of owning such Issue 2016-3 Bond.

Unearned Income Medicare Contribution Tax. Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8 percent of the lesser of (a) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business and certain other listed items of gross income), or (b) the excess of “modified adjusted gross income” of the individual over \$200,000 for unmarried individuals

(\$250,000 for married couples filing a joint return and a surviving spouse). Holders of the Issue 2016-3 Bonds should consult their own tax advisors regarding the application of this tax to interest earned on the Issue 2016-3 Bonds and to gain on the sale of an Issue 2016-3 Bond.

Sale or Redemption of Issue 2016-3 Bonds. A bondowner's tax basis for an Issue 2016-3 Bond is the price such owner pays for the Issue 2016-3 Bond plus amounts of any original issue discount included in income, reduced on account of any payments received (other than "qualified periodic interest" payments) and any amortized premium. Gain or loss recognized on a sale, exchange or redemption of an Issue 2016-3 Bond, measured by the difference between the amount realized and the Issue 2016-3 Bond's basis as so adjusted, will generally give rise to capital gain or loss if the Issue 2016-3 Bond is held as a capital asset or ordinary income to the extent of accrued market discount that has not already been included in income.

Backup Withholding. An Issue 2016-3 bondowner may, under certain circumstances, be subject to "backup withholding" at a rate equal to the rate of the fourth lowest of income tax rates applicable to unmarried taxpayers (other than a "surviving spouse" or "head of household") with respect to interest or original issue discount on the Issue 2016-3 Bonds. This withholding generally applies if the owner of an Issue 2016-3 Bond (a) fails to furnish the Trustee or other payor with its taxpayer identification number; (b) furnishes the Trustee or other payor an incorrect taxpayer identification number; (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code; or (d) under certain circumstances, fails to provide the Trustee or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to bondowners, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below). Owners of the Issue 2016-3 Bonds should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the Issue 2016-3 Bonds will be reported to the bondowners and to the Internal Revenue Service.

Foreign Bondowners. Under the Code, interest and original issue discount income with respect to Issue 2016-3 Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons ("Nonresidents") generally will not be subject to the 30% United States withholding tax if the Trustee (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement that the beneficial owner of the Issue 2016-3 Bonds is a Nonresident. The withholding tax may be reduced or eliminated by an applicable tax treaty, if any. Notwithstanding the foregoing, if any such payments are effectively connected with a United States trade or business conducted by a Nonresident bondowner, they will be subject to regular United States income tax, but will ordinarily be exempt from United States withholding tax.

ERISA. The Employees Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Issue 2016-3 Bonds.

IN ALL EVENTS, ALL INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE ISSUE 2016-3 BONDS.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in

bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and that Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

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

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, THDA, in the Issue 2016-3 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2016-3 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MRSB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2016-3 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2016-3 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2016-3 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2016-3 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MRSB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the

issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2015, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the nine months ended March 31, 2016. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

Raymond James & Associates, Inc., Citigroup Global Markets Inc., RBC Capital Markets, LLC, FTN Financial Capital Markets, J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and Avondale Partners (collectively, the "Underwriters") have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$371,378.96. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

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

Citigroup, an underwriter of the Offered Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Offered Bonds.

FTN Financial Capital Markets is a division of First Tennessee Bank National Association and FTB Advisors, Inc. is a wholly-owned subsidiary of First Tennessee Bank National Association. FTN Financial Capital Markets has entered into a distribution agreement with FTB Advisors, Inc. for the distribution of the Offered Bonds at the original issue prices. Such arrangement generally provides that FTN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with FTB Advisors, Inc.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer

Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

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

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Brian Bills
Chairman

/s/ Ralph M. Perrey
Executive Director



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

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Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the Notes, the agency implemented Governmental Accounting Standards Board Statement (GASBS) 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASBS 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the other postemployment benefits schedule of funding progress, schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and schedule of contributions to the State and Higher Education Employee Retirement Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2015, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA
Director
December 23, 2015

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the years ended June 30, 2015, with comparative information presented for the fiscal year ended June 30, 2014. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2015, THDA has originated over 115,000 single-family mortgage loans in its 42-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

More recently, THDA has administered programs under the American Recovery and Reinvestment Act of 2009 (ARRA), including the Homeless Prevention and Rapid Re-Housing Program (HPRP), the Tax Credit Assistance Program (TCAP), the Neighborhood Stabilization Program (NSP), and a Low Income Housing Tax Credit exchange program under Section 1602 of the Act.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated 13-23-105*). This board meets regularly on a bi-monthly basis; however, some committees may meet more often as situations dictate.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discreetly presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <http://www.tn.gov/finance/article/fa-accfin-cafr>.

During fiscal year 2015, THDA implemented accounting standard GASB Statement 68, Accounting and Financial Reporting for Pensions. The Statement requires the reporting of an organization's net pension liability on the face of the financial statements. Implementation of this Statement resulted in a revision of THDA's Net Position as of July 1, 2014, which has been reported as a Prior Period Adjustment.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2015

- Total assets increased by \$1.9 million, or 0.1%.
- Deferred outflows of resources increased \$1.4 million, or 112.2%.
- Total liabilities increased by \$11.6 million, or 0.6%.
- Net position was \$514.4 million. This is a decrease of \$12.5 million, or 2.4%, from fiscal year 2014.
- Cash and cash equivalents increased by \$27.6 million, or 10.1%.
- Total investments increased by \$3.3 million, or 1.3%.
- Bonds payable decreased by \$5.1 million, or 0.3%.
- Deferred inflows of resources increased \$4.3 million. The amount of deferred inflows of resources as reported on the FY 2014 financial statements was \$0.
- THDA originated \$250.8 million in new loans, which is an increase of \$23.5 million, or 10.3%, from the prior year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

FINANCIAL ANALYSIS OF THE AGENCY

Net Position. The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	<u>2015</u>	<u>2014</u>
Current assets	\$ 442,792	\$ 400,662
Capital assets	512	626
Other noncurrent assets	<u>2,123,193</u>	<u>2,163,308</u>
Total assets	<u>2,566,497</u>	<u>2,564,596</u>
Deferred outflows of resources	<u>2,653</u>	<u>1,250</u>
Current liabilities	191,375	171,907
Noncurrent liabilities	<u>1,859,097</u>	<u>1,867,011</u>
Total liabilities	<u>2,050,472</u>	<u>2,038,918</u>
Deferred inflows of resources	4,271	-
Invested in capital assets	512	626
Restricted net position	441,196	449,905
Unrestricted net position	<u>72,699</u>	<u>76,397</u>
Total net position	<u><u>\$ 514,407</u></u>	<u><u>\$ 526,928</u></u>

2015 to 2014

- THDA's total net position decreased by \$12.5 million, or 2.4%, from \$526.9 million at June 30, 2014 to \$514.4 million at June 30, 2015. This change resulted from a decrease in net position of \$6.8 million for the cumulative effect of a change in accounting principle caused by the implementation of GASB 68, operating income of \$9.7 million, and non-operating expenses of \$15.4 million.
- First and Second mortgage loans receivable decreased by \$33.5 million or 1.7% from \$1,966.3 million on June 30, 2014 to \$1,932.8 million on June 30, 2015. During FY 2015, single-family mortgage loan originations increased by \$23.5 million or 10.3% from \$227.3 million at June 30, 2014 to \$250.8 million at June 30, 2015. Mortgage loan payoffs increased by \$38.4 million or 26.0% from \$147.6 million at June 30, 2014 to \$186.0 million at June 30, 2015. Mortgage loan repayments increased \$2.3 million, or 4.5%, from \$51.2 million at June 30, 2014 to \$53.5 million at June 30, 2015. In addition, THDA recognized an allowance for forgivable second mortgages of \$2.9 million, whereas no such allowance was recorded at June 30, 2014.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

- Total liabilities increased \$11.6 million or 0.6% from \$2,038.9 million on June 30, 2014 to \$2,050.5 million on June 30, 2015. The increase is primarily due to an increase in accounts payable at June 30, 2015 as compared to June 30, 2014, as well as reporting a pension liability as a result of implementing GASB 68.

Changes in Net Position. The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	<u>2015</u>	<u>2014</u>
Operating revenues		
Mortgage interest income	\$ 96,999	\$ 102,108
Investment income	6,535	6,346
Other	16,512	19,027
Total operating revenues	<u>120,046</u>	<u>127,481</u>
Operating expenses		
Interest expense	66,389	70,390
Other	43,932	42,941
Total operating expenses	<u>110,321</u>	<u>113,331</u>
Operating income	<u>9,725</u>	<u>14,150</u>
Nonoperating revenues (expenses)		
Grant revenues	307,012	295,814
Grant expenses	<u>(322,465)</u>	<u>(309,503)</u>
Total nonoperating revenues (expenses)	<u>(15,453)</u>	<u>(13,689)</u>
Change in net position	<u>\$ (5,728)</u>	<u>\$ 461</u>

2015 to 2014

Total operating revenues decreased \$7.4 million, or 5.8%, from \$127.5 million for the year ended June 30, 2014, to \$120.1 million for the year ended June 30, 2015. The primary reasons for this decrease are as follows:

- Mortgage interest income decreased \$5.1 million, or 5.0%, from \$102.1 million in 2014 to \$97.0 million in 2015. This is due to new mortgage loan originations having lower interest rates than those associated with mortgage loan repayments.
- Total operating expenses decreased \$3.0 million, or 2.7%, from \$113.3 million in fiscal year 2014 to \$110.3 million in fiscal year 2015. A leading factor in this decrease is a decrease in interest expense, due to the use of mortgage loan prepayments to redeem

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

bonds in advance of their maturities, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

DEBT ACTIVITY

Bonds outstanding at June 30 were as follows (expressed in thousands):

	<u>2015</u>	<u>2014</u>
Bonds payable	\$ 1,979,170	\$ 1,984,298

Year Ended June 30, 2015

Total bonds and notes payable decreased \$5.1 million, or 0.3%, due primarily to an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling \$477.8 million, with activity arising from three bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$213.4 million of outstanding bonds into new bond originations with lower interest rates.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard & Poor's Ratings Services (S&P), a division of the The McGraw-Hill Companies, Inc. has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during FY 2015 or FY 2014.

Debt Limits

In accordance with *Tennessee Code Annotated*, 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

GRANT PROGRAMS

During FY 2007 through FY 2009, the General Assembly has appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors has allocated additional THDA funds for grants. These funds established a grant program that has been titled by the THDA as the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

	FY 2015	FY 2014	FY 2013	FY 2012 and Prior	Total
Funding Sources:					
THDA	\$ 7,500,000	\$ 9,300,000	\$ 6,500,000	\$ 36,500,000	\$ 59,800,000
State Appropriation	-	-	-	4,350,000	4,350,000
Totals	\$ 7,500,000	\$ 9,300,000	\$ 6,500,000	\$ 40,850,000	\$ 64,150,000
Approved Uses:					
Rural repair program (USDA)	\$ 700,000	\$ 700,000	\$ 700,000	\$ 4,200,000	\$ 6,300,000
Ramp Programs & Hsg Modification	150,000	150,000	150,000	900,000	1,350,000
Emergency Repairs	1,800,000	2,000,000	-	12,000,000	15,800,000
Competitive Grants	2,850,000	3,850,000	5,150,000	22,950,000	34,800,000
Rebuild & Recover	500,000	2,300,000	-	-	2,800,000
Other Grants	1,500,000	300,000	500,000	800,000	3,100,000
Totals	\$ 7,500,000	\$ 9,300,000	\$ 6,500,000	\$ 40,850,000	\$ 64,150,000

In addition to the above funding, local grants could produce an additional \$4 million or more in funding each year. Also, the Emergency Repairs for the Elderly program and the Competitive Grants have a 50% grantee match requirement.

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the *Great Choice* and the *Great Choice Plus* loan programs were introduced and the *Great Rate*, *Great Advantage* and *Great Start* loan programs were eliminated. The *Great Choice* loan program offers THDA the opportunity to offer a more competitive interest rate on its 30 year fixed rate mortgage product while still offering down payment assistance with the addition of the *Great Choice Plus* loan program which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the *Great Choice Plus* loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15.

A special interest rate reduction on *Great Choice* loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as "*Homeownership for the Brave*", provides a 0.5% rate reduction on the current interest rate for *Great Choice* loans. In addition to the rate reduction, "*Homeownership for the Brave*" applicants are eligible for optional down payment and closing cost assistance through the *Great Choice Plus* second mortgage loan at a 0% interest rate.

All loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages (ARMs), interest-only mortgages, "buy-down" loans, mortgages with a future lump-sum payment due (balloon-type mortgage), or with other similar mortgage terms. THDA does not make or purchase "sub-prime" mortgage loans.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers, who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor's Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at <http://www.thda.org/index.aspx?NID=8>.

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2015, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

<u>Loan Status</u>	<u>Total Number of Loans Serviced</u>	<u>Number of Loans in Status</u>	<u>Principal Amount</u>	<u>Percentage</u>
60-89 Days Past Due	24,101	538	\$ 42,001,519	2.23%
90+ Days Past Due	24,101	1,296	105,118,036	5.38%
In Foreclosure	24,101	338	24,993,487	1.40%

Note: Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

ECONOMIC FACTORS

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, THDA uses the one-, three-, and five-year Constant Maturity Treasury (CMT) rates as established by the United States Treasury.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2015

The continuation of relatively low interest rates from a historic perspective increased the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Trent Ridley, Chief Financial Officer at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2015
(Expressed in Thousands)

	<u>2015</u>
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 275,510
Investments (Note 2)	42,603
Receivables:	
Accounts	29,597
Interest	13,556
First mortgage loans	53,465
Due from federal government	28,051
Prepaid expenses	10
Total current assets	<u>442,792</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents (Note 2)	25,478
Investments (Note 2)	178,624
Investment interest receivable	1,573
Investments (Note 2)	35,056
First mortgage loans receivable	1,869,777
Second mortgage loans receivable	12,505
Allowance for forgivable second mortgages	(2,904)
Advance to local government	3,084
Capital assets:	
Furniture and equipment	1,561
Less accumulated depreciation	(1,049)
Total noncurrent assets	<u>2,123,705</u>
Total assets	<u>2,566,497</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on refundings	981
Deferred outflows related to pensions (Note 6)	1,672
Total deferred outflows of resources	<u>2,653</u>
LIABILITIES	
Current liabilities:	
Accounts payable	11,444
Accrued payroll and related liabilities	587
Compensated absences	585
Due to primary government	71
Interest payable	32,325
Escrow deposits	76
Prepayments on mortgage loans	1,165
Due to federal government	14,667
Bonds payable (Note 4)	130,455
Total current liabilities	<u>191,375</u>
Noncurrent liabilities:	
Bonds payable (Note 4)	1,848,715
Compensated absences	622
Net pension liability (Note 6)	2,964
Net OPEB obligation (Note 10)	1,516
Escrow deposits	2,477
Arbitrage rebate payable	2,803
Total noncurrent liabilities	<u>1,859,097</u>
Total liabilities	<u>2,050,472</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions (Note 6)	4,271
Total deferred inflows of resources	<u>4,271</u>
NET POSITION	
Net investment in capital assets	512
Restricted for single family bond programs (Note 5 and Note 8)	426,741
Restricted for grant programs (Note 5)	11,302
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,153
Unrestricted (Note 8)	72,699
Total net position	<u>\$ 514,407</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	<u>2015</u>
OPERATING REVENUES	
Mortgage interest income	\$ 96,999
Investment income:	
Interest	10,413
Net (decrease) in the fair value of investments	(3,878)
Federal grant administration fees	14,920
Fees and other income	<u>1,592</u>
Total operating revenues	<u>120,046</u>
OPERATING EXPENSES	
Salaries and benefits	15,147
Contractual services	6,478
Materials and supplies	657
Rentals and insurance	30
Other administrative expenses	476
Other program expenses	10,185
Interest expense	66,389
Mortgage service fees	7,076
Issuance costs	3,538
Depreciation	<u>345</u>
Total operating expenses	<u>110,321</u>
Operating income	<u>9,725</u>
NONOPERATING REVENUES (EXPENSES)	
Federal grants revenue	307,010
Other grants revenue	2
Federal grants expenses	(307,165)
Local grants expenses	<u>(15,300)</u>
Total nonoperating revenues (expenses)	<u>(15,453)</u>
Change in net position	<u>(5,728)</u>
Total net position, July 1	526,928
Cumulative effect of a change in accounting principle (Note 3)	(6,793)
Total net position, July 1, as restated	<u>520,135</u>
Total net position, June 30	<u>\$ 514,407</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	<u>2015</u>
Cash flows from operating activities:	
Receipts from customers	\$ 380,448
Receipts from federal government	14,708
Other miscellaneous receipts	1,592
Acquisition of mortgage loans	(250,764)
Payments to service mortgages	(5,914)
Payments to suppliers	(14,245)
Payments to or for employees	<u>(16,603)</u>
Net cash provided by operating activities	<u>109,222</u>
Cash flows from non-capital financing activities:	
Operating grants received	309,194
Proceeds from sale of bonds	477,824
Operating grants paid	(315,029)
Cost of issuance paid	(3,538)
Principal payments	(477,870)
Interest paid	<u>(75,380)</u>
Net cash used by non-capital financing activities	<u>(84,799)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(231)</u>
Net cash used by capital and related financing activities	<u>(231)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	124,834
Purchases of investments	(132,012)
Investment interest received	10,548
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	<u>23</u>
Net cash provided by investing activities	<u>3,393</u>
Net increase in cash and cash equivalents	27,585
Cash and cash equivalents, July 1	<u>273,403</u>
Cash and cash equivalents, June 30	\$ <u><u>300,988</u></u>

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>9,725</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	345
Pension expense	442
Changes in assets and liabilities:	
Decrease in accounts receivable	3,344
Decrease in mortgage interest receivable	321
(Increase) in deferred pension outflows	(1,672)
Decrease in mortgage loans receivable	33,435
(Increase) in due from federal government	(212)
(Decrease) in accounts payable	(1,546)
Increase in accrued payroll / compensated absences	75
(Decrease) in due to primary government	(1)
Increase in arbitrage rebate liability	1,574
Investment income (loss) included as operating revenue	(6,535)
Interest expense included as operating expense	66,389
Issuance cost included as operating expense	<u>3,538</u>
Total adjustments	<u>99,497</u>
Net cash provided by operating activities	\$ <u><u>109,222</u></u>
Noncash investing, capital, and financing activities:	
(Decrease) in fair value of investments	\$ <u>(4,933)</u>
Total noncash investing, capital, and financing activities	\$ <u><u>(4,933)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cashflows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

d. Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds and the Bond Reserve Funds.

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

f. Deferred Amount on Refundings and Bond Premiums and Discounts

1. Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.
2. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

g. Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

h. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

i. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

j. Mortgages

Mortgages are carried at their original amount less collected principal.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

k. Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding.

l. Allowance for Forgivable Second Mortgages

THDA has offered Down Payment Assistance (DPA) product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period.

m. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2015, the bank balance was \$17,206,841. All bank balances at June 30, 2015, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2015, \$16,820,732 was in the BNYM. Of this amount, \$16,570,732 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

b. Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Investment Type	June 30, 2015	
	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$144,042,517	2.994
U.S. Treasury Coupon	77,246,460	2.305
U.S. Agency Discount	154,992,130	0.076
Total	<u>\$376,281,107</u>	1.6512

The portfolios include the following investments, stated at par or face value, which have fair values highly sensitive to interest rate changes. These investments are recorded at fair value in the statement of net position.

Variable Rate Bonds

The agency purchased \$2,350,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.75 of par on June 11, 2012, and mature on June 11, 2027. The fair value of these securities on June 30, 2015, is \$2,319,095, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0%

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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with a step-up option to 2.5% on June 11, 2016, to 3.0% on June 11, 2020; to 4.0% on June 11, 2022; to 6.0% on June 11, 2023; to 7.0% on June 11, 2024; to 8.0% on December 11, 2024; to 10.0% on June 11, 2025; to 12.0% on December 11, 2025; to 14.0% on June 11, 2026; and to 16.0% on December 11, 2026.

The agency purchased \$3,210,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on June 28, 2012, and mature on June 27, 2027. The fair value of these securities on June 30, 2015 is \$3,166,835, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 28, 2015; to 3.0% on June 28, 2018; to 4.0% on June 28, 2021; to 5.0% on June 28, 2023; and to 6.5% on June 28, 2025.

The agency purchased \$3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 100.12 of par on November 15, 2012 and mature on June 11, 2027. The fair value of these securities on June 30, 2015 is \$2,960,547, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.5% on June 11, 2016; to 3.0% on June 11, 2020; to 4.0% on June 11, 2022; to 6.0% on June 11, 2023; to 7.0% on June 11, 2024; to 8.0% on December 11, 2024; to 10.0% on June 11, 2025; to 12.0% on December 11, 2025; to 14.0% on June 11, 2026; and to 16.0% on December 11, 2026.

The agency purchased \$4,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.80 of par on November 8, 2012. Although these securities were scheduled to mature on November 8, 2027, these bonds were called on May 8, 2015.

The agency purchased \$3,000,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.45 of par on November 23, 2012, and mature on November 23, 2027. The fair value of these securities on June 30, 2015 is \$2,676,093, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.125% on November 23, 2017; to 2.25% on November 23, 2020; to 2.5% on November 23, 2023; to 3.0% on November 23, 2024; to 4.0% on May 23, 2025; to 6.0% on November 23, 2025; to 8.0% on May 23, 2026; to 11.0% on November 23, 2026; and to 14% on May 23, 2027. This investment is callable quarterly beginning May 23, 2013, and ending November 23, 2015.

The agency purchased \$2,400,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.65 of par on December 21, 2012 and mature on December 21, 2027. The fair value of these securities on June 30, 2015 is \$2,243,767, included in U.S. Agency Coupon in the tables above. This investment has a stated

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

coupon rate of 2.0% with a step-up option to 2.25% on December 21, 2017; to 2.5% on December 21, 2020; to 3.0% on December 21, 2022; to 4.0% on December 21, 2023; to 5.0% on December 21, 2024; to 6.0% on December 21, 2025; to 8.0% on June 21, 2026; to 10.0% on December 21, 2026; and to 12.0% on June 21, 2027. This investment is callable quarterly beginning June 21, 2013, and ending December 21, 2018.

The agency purchased \$2,750,000 in step-up rate bonds issued by Federal Home Loan Bank. They were purchased at 99.90 of par on January 30, 2013 and mature on January 30, 2025. The fair value of these securities on June 30, 2015 is \$2,696,378, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 2.25% on January 30, 2018; to 2.5% on January 30, 2021; to 3.0% on January 30, 2022; to 5.0% on January 30, 2023; to 7.0% on July 30, 2023; and to 9.0% on January 30, 2024. This investment is callable quarterly beginning July 30, 2013, and ending October 30, 2016.

The agency purchased \$1,500,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 100.18 of par on November 7, 2012, and mature on June 28, 2027. The fair value of these securities on June 30, 2015 is \$1,487,250, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 4.0% on June 28, 2017; to 5.0% on June 28, 2024; and to 6.5% on June 28, 2026. This investment is callable quarterly beginning December 28, 2012, and ending December 28, 2015.

The agency purchased \$2,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at 99.70 of par on August 27, 2012, and mature on August 27, 2027. The fair value of these securities on June 30, 2015 is \$1,987,664, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 1.5% with a step-up option to 2.5% on August 27, 2015; to 3.5% on August 27, 2018; to 4.5% on August 27, 2021; and to 5.5% on August 27, 2024. This investment is callable quarterly beginning August 27, 2012, and ending November 27, 2015.

The agency purchased \$5,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 27, 2012, and mature on December 27, 2027. The fair value of these securities on June 30, 2015 is \$4,869,600, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 1.0% with a step-up option to 2.0% on June 27, 2013, and to 3.15% on December 27, 2013. This investment is callable quarterly beginning June 27, 2013, and ending December 27, 2016.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

The agency purchased \$3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 27, 2012, and mature on December 27, 2017. Although these securities were scheduled to mature on December 27, 2017, they were sold internally on November 20, 2014. The fair value of these securities on June 30, 2015 is \$2,998,458, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 0.6% with a step-up option to 0.7% on December 27, 2014; to 1.0% on December 27, 2015; to 1.5% on December 27, 2016; and to 3.0% on June 27, 2017. This investment is callable quarterly beginning December 27, 2013, and ending December 27, 2016.

The agency purchased \$3,000,000 in step-up rate bonds issued by Federal National Mortgage Association. They were purchased at par on December 28, 2012, and mature on December 28, 2027. The fair value of these securities on June 30, 2015 is \$2,944,083, included in U.S. Agency Coupon in the tables above. This investment has a stated coupon rate of 2.0% with a step-up option to 3.0% on December 28, 2017; to 4.0% on December 28, 2020; to 5.0% on December 28, 2024; and to 6.0% on December 28, 2025. This investment is callable quarterly beginning June 28, 2013, and ending December 28, 2017.

Credit Risk Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2015, are included in the schedule below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

June 30, 2015					
			Credit Quality Rating		
Investment Type	Fair Value	U.S. Treasury ¹	AA+	AA-2	Not Rated ²
U.S. Agency Coupon	\$144,042,517		\$126,719,822	\$4,555,652	\$12,767,043
U.S. Treasury Coupon	77,246,460	\$77,246,460			
U.S. Agency Discount	154,992,130				154,992,130
Total	\$376,281,107	\$77,246,460	\$126,719,822	\$4,555,652	\$167,759,173

¹This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

²This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

<u>Issuer</u>	June 30, 2015	
	<u>Fair Value</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$215,105,442	57.17
Federal National Mortgage Assoc.	\$53,208,579	14.14

NOTE 3. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year 2015, Tennessee Housing Development Agency implemented *GASB Statement 68, Accounting and Financial Reporting for Pensions* and *GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. GASB Statement 68 establishes standards for the measurement, recognition, and display of the net pension liability and related expenses, deferred inflows, note disclosures and required supplementary information. The implementation of GASB Statement 68 resulted in a cumulative adjustment to the beginning net position of \$(6,792,803). This cumulative adjustment does not include related deferred inflows and deferred outflows of resources.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2015</u>
HOMEOWNERSHIP PROGRAM BONDS				
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	27,395
2006-1	7/1/2007-1/1/2037	100,000	3.55 to 5.75	24,185
2006-2	7/1/2007-1/1/2037	100,000	3.90 to 5.75	22,945
2006-3	1/1/2008-7/1/2037	100,000	3.65 to 5.75	30,935
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	34,055
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	45,200
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	51,365
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	56,675
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	21,760
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	18,430
2009-1	1/1/2010-7/1/2029	50,000	0.75 to 5.00	26,500
2009-2	7/1/2010-7/1/2030	75,000	0.90 to 5.00	40,090
2010-1	1/1/2011-7/1/2025	120,700	0.35 to 4.50	62,585
2011-1	7/1/2012-7/1/2042	141,255	0.60 to 4.65	96,835
2012-1	1/1/2013-7/1/2042	133,110	0.80 to 4.50	103,190
2012-2	7/1/2013-7/1/2043	97,625	0.50 to 4.00	81,890
Total Homeownership Program Bonds		<u>\$1,687,690</u>		\$744,035
Plus: Unamortized Bond Premiums				6,883
Less: Unamortized Bond Discount				<u>(133)</u>
Net Homeownership Program Bonds				<u>\$750,785</u>

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2015</u>
HOUSING FINANCE PROGRAM BONDS				
2009-A	1/1/2011-1/1/2040	\$100,000	0.90 to 4.625	\$20,325
2010-A	1/1/2011-7/1/2041	160,000	0.60 to 5.00	34,305
2010-B	7/1/2011-7/1/2041	100,000	0.45 to 4.50	72,770
2011-A	7/1/2011-7/1/2041	100,000	0.45 to 4.50	24,175
2011-B	7/1/2012-7/1/2041	100,000	0.25 to 4.50	79,500
2011-C	7/1/2012-7/1/2041	100,000	0.40 to 4.30	79,525
2015-A	1/1/2016-7/1/2045	150,000	0.30 to 3.85	163,850
Total Housing Finance Program Bonds		<u>\$810,000</u>		\$474,450
Plus: Unamortized Bond Premiums				5,415
Net Housing Finance Program Bonds				<u>\$479,865</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2015</u>
RESIDENTIAL FINANCE PROGRAM BONDS				
2013-1	1/1/2014-7/1/2043	\$215,905	0.40 to 4.00	\$177,520
2013-2	7/1/2014-7/1/2043	121,300	0.45 to 4.65	109,615
2014-1	1/1/2015-7/1/2039	150,000	0.32 to 4.00	143,350
2014-2	7/1/2015-7-1-2045	150,000	0.25 to 4.00	150,000
2015-1	1/1/2016-7/1/2045	150,000	0.50 to 4.05	150,000
Total Residential Finance Program Bonds		<u>\$787,205</u>		\$730,485
Plus: Unamortized Bond Premiums				<u>18,035</u>
Net Residential Finance Program Bonds				<u>\$748,520</u>
Net Total All Issues				<u>\$1,979,170</u>

Housing Finance Program Bonds The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2015, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2016	\$130,210	\$66,327	\$196,537
2017	60,840	67,253	128,093
2018	62,240	65,731	127,971
2019	65,205	63,938	129,143
2020	67,515	61,921	129,436
2021 – 2025	371,950	272,510	644,460
2026 – 2030	344,895	202,692	547,587
2031 – 2035	357,140	132,603	489,743
2036 – 2040	327,036	63,012	390,048
2041 – 2045	161,939	13,973	175,912
Total	<u>\$1,948,970</u>	<u>\$1,009,960</u>	<u>\$2,958,930</u>

c. Redemption of Bonds and Notes

During the year ended June 30, 2015, bonds were retired at par before maturity in the Homeownership Program in the amount of \$80,555,000, in the Housing Finance Program in the amount of \$61,800,000, and in the Residential Finance Program in the amount of \$9,740,000. The respective carrying values of the bonds were \$82,200,775, \$62,080,414 and \$10,014,860. This resulted in revenue to the Homeownership Program of \$1,645,775, to the Housing Finance Program of \$280,414, and to the Residential Finance Program of \$274,860.

On May 29, 2014, the agency issued \$150,000,000 in Residential Finance Program Bonds, Issue 2014-1. On July 1, 2014, the agency used \$30,375,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$30,375,000 early redemption). The carrying amount of these bonds was \$30,375,000. The refunding increased the agency's debt service by \$2,086,324 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$603,145.

On November 20, 2014, the agency issued \$150,000,000 in Residential Finance Program Bonds, Issue 2014-2. On January 1, 2015, the agency used \$32,955,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists

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JUNE 30, 2015

of \$32,955,000 early redemption). The carrying amount of these bonds was \$32,970,071. The refunding increased the agency's debt service by \$2,804,783 over the next 20.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$628,626.

On May 28, 2015, the agency issued \$163,850,000 in Housing Finance Program Bonds, Issue 2015-A. On June 1, 2015, the agency used \$153,040,000 of these bonds to refund bonds previously issued in the Housing Finance Program (this amount consists of \$153,040,000 early redemption). The carrying amount of these bonds was \$153,040,000. The refunding reduced the agency's debt service by \$12,922,997 over the next 24.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$2,296,133.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2015.

Long-term Liabilities (Thousands)					
	Beginning Balance July 1, 2014	Additions	Reductions	Ending Balance June 30, 2015	Amounts Due Within One Year
Bonds Payable	\$1,962,990	\$463,850	(\$477,870)	\$1,948,970	\$130,455
Plus: Unamortized Bond Premiums	21,477	13,975	(5,119)	30,333	-0-
Less: Unamortized Bond Discounts	(169)	-0-	36	(133)	-0-
Compensated Absences	1,210	80	(83)	1,207	585
Net Pension Liability	8,557	-0-	(5,593)	2,964	-0-
Escrow Deposits	2,220	1,336	(1,003)	2,553	76
Arbitrage Rebate Payable	1,229	1,574	(-0-)	2,803	-0-
Total	\$1,997,514	\$480,815	(\$489,632)	\$1,988,697	\$131,116

NOTE 5. RESTRICTED NET POSITION

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

NOTE 6. PENSION PLANS

a. Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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Benefits provided Title 8, Chapters 34-37, *Tennessee Code Annotated* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%

Plus:

Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Tennessee Housing Development Agency employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2015 to the Closed State and Higher Education Employee Pension Plan were \$1,652,466 which is 15.03 percent of

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability At June 30, 2015, Tennessee Housing Development Agency reported a liability of \$2,963,885 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension liability was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2014 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2014 measurement date, Tennessee Housing Development Agency's proportion of the central state liability was .424758 percent, representing the first time presentation of this proportion.

Pension expense For the year ended June 30, 2015, Tennessee Housing Development Agency recognized a pension expense of \$441,581.

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2015, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 639,392
Net difference between projected and actual earnings on pension plan investments	-	3,631,106
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2014	1,652,466	-
Total	\$ <u>1,652,466</u>	\$ <u>4,270,498</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of \$1,652,466 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2016	\$ (1,067,625)
2017	(1,067,625)
2018	(1,067,625)
2019	(1,067,623)
2020	-
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions The total pension liability as of the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	\$ 10,165,784	\$ 2,963,885	\$ (3,098,235)

Pension plan fiduciary net position Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2015, Tennessee Housing Development Agency reported a payable of \$61,392 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2015.

b. State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014 and covers employees hired before July 1, 2014. Employees hired after June 30, 2014 are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37.

Benefits provided Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2015 to the State and Higher Education Employee Retirement Plan were \$19,267 which is 3.82 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

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Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liabilities Since the measurement date is June 30, 2014, which is prior to the July 1, 2014 inception of the State and Higher Education Employee Retirement Plan, there is not a net pension liability to report at June 30, 2015.

Pension expense Since the measurement date is June 30, 2014, Tennessee Housing Development Agency (THDA) did not recognize a pension expense at June 30, 2015.

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2015, Tennessee Housing Development Agency reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Tennessee Housing Development Agency's contributions subsequent to the measurement date of June 30, 2014	\$ 19,267	\$ (not applicable)

Tennessee Housing Development Agency's employer contributions of \$19,267 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ended June 30, 2016.

Payable to the Pension Plan

At June 30, 2015, THDA reported a payable of \$6,568 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

NOTE 7. DEFERRED COMPENSATION PLANS

The Tennessee Housing Development Agency, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to IRC, Section 457 and the other pursuant to IRC, Section 401(k). The plans are outsourced to third party vendors and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The Tennessee Housing Development Agency provides up to a \$50 monthly employer match for

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JUNE 30, 2015**

employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014 voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of *Public Acts of 2013*, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The Tennessee Housing Development Agency recognized a pension expense of \$118,794 for employer contributions.

NOTE 8. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

NOTE 9. INSURANCE-RELATED ACTIVITIES

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

TENNESSEE HOUSING DEVELOPMENT AGENCY
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b. Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the RMF. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of \$10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$10 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2013, is presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2015, the Risk Management Fund held \$127.9 million in cash designated for payment of claims. At June 30, 2015, the scheduled coverage for the agency was \$1.561 million for furniture and equipment.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans - the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* Section 8-27-101. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation - The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including the Tennessee Housing Development Agency (see Note 11). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy - The premium requirements of plan members are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates.

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Administrative costs of the plan are allocated to plan participants. Retired employees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25.

THDA Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan
(Thousands)

June 30, 2015

Annual Required Contribution (ARC)	\$356
Interest on the Net OPEB Obligation	56
Adjustment to the ARC	(55)
Annual OPEB cost	357
Amount of contribution	(254)
Increase in Net OPEB Obligation	103
Net OPEB Obligation-beginning of year	1,413
Net OPEB Obligation-end of year	\$1,516

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost (Thousands)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation At Year End (Thousands)</u>
6/30/2015	State Employee Group Plan	\$ 357	71%	\$ 1,516
6/30/2014	State Employee Group Plan	\$ 346	68%	\$ 1,413
6/30/2013	State Employee Group Plan	\$ 359	60%	\$ 1,303

Funded Status and Funding Progress The funded status of THDA's portion of the state Employee Group Plan as of July 1, 2013, was as follows (thousands):

Actuarial valuation date	7/01/2013
Actuarial accrued liability (AAL)	\$ 2,964
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	\$ 2,964
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 9,841
UAAL as a percentage of covered payroll	30%

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2013, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreases to 7% in fiscal year 2015, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2044. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

NOTE 11. ON-BEHALF PAYMENTS

During the year ended June 30, 2015, the State of Tennessee made payments of \$5,525 on behalf of THDA for retirees participating in the Medicare Supplement Plan, The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

NOTE 12. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund;

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

(ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

NOTE 13. SUBSEQUENT EVENTS

- a.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

July 1, 2015	Homeownership Program	\$40,865,000
	Housing Finance Program	10,490,000
	Residential Finance Program	<u>10,825,000</u>
	Total	<u>\$62,180,000</u>

- b.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

August 1, 2015	Homeownership Program	\$12,535,000
	Housing Finance Program	4,855,000
	Residential Finance Program	<u>7,010,000</u>
	Total	<u>\$24,400,000</u>

- c.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

September 1, 2015	Homeownership Program	\$13,760,000
	Housing Finance Program	4,880,000
	Residential Finance Program	<u>5,845,000</u>
	Total	<u>\$24,485,000</u>

- d.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

October 1, 2015	Homeownership Program	\$13,155,000
	Housing Finance Program	4,595,000
	Residential Finance Program	<u>5,480,000</u>
	Total	<u>\$23,230,000</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

- e. Homeownership Program Bonds, Issue 2015-2, were sold on October 15, 2015. The bond maturities are as follow:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
Series	Maturity Range	Amount	Rate
			(Percent)
2015-2	7/1/2016-1/1/2046	\$175,000	0.400 to 4.000

- f. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

November 1, 2015	Homeownership Program	\$11,975,000
	Housing Finance Program	6,410,000
	Residential Finance Program	<u>4,835,000</u>
	Total	<u>\$23,220,000</u>

- g. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

December 1, 2015	Homeownership Program	\$15,680,000
	Housing Finance Program	6,365,000
	Residential Finance Program	<u>5,045,000</u>
	Total	<u>\$27,090,000</u>

NOTE 14. EVENTS (UNAUDITED) SUBSEQUENT TO THE DATE OF THE INDEPENDENT AUDITOR'S REPORT

- a. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

January 1, 2016	Homeownership Program	\$56,420,000
	Housing Finance Program	16,800,000
	Residential Finance Program	<u>9,065,000</u>
	Total	<u>\$82,285,000</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

- b. Residential Finance Program bonds, Issue 2016-1, were authorized by the Board of Directors on January 26, 2016, not to exceed \$150,000,000. The sale of the Bonds will occur no later than June 30, 2016.

- c. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

February 1, 2016	Homeownership Program	\$9,625,000
	Housing Finance Program	5,915,000
	Residential Finance Program	<u>4,010,000</u>
	Total	<u>\$19,550,000</u>

- d. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

March 1, 2016	Homeownership Program	\$10,790,000
	Housing Finance Program	6,455,000
	Residential Finance Program	<u>6,880,000</u>
	Total	<u>\$24,125,000</u>

- e. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

April 1, 2016	Homeownership Program	\$9,790,000
	Housing Finance Program	7,135,000
	Residential Finance Program	<u>6,230,000</u>
	Total	<u>\$23,155,000</u>

- f. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

May 1, 2016	Homeownership Program	\$7,380,000
	Housing Finance Program	5,790,000
	Residential Finance Program	<u>6,510,000</u>
	Total	<u>\$19,680,000</u>

- g. Residential Finance Program bonds, Issue 2016-2, were authorized by the Board of Directors on May 24, 2016, not to exceed \$125,000,000. The sale of the Bonds will occur no later than December 31, 2016.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

- h. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

June 1, 2016	Homeownership Program	\$8,545,000
	Housing Finance Program	5,755,000
	Residential Finance Program	<u>5,650,000</u>
	Total	<u>\$19,950,000</u>

- i. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

July 1, 2016	Homeownership Program	\$33,970,000
	Housing Finance Program	6,300,000
	Residential Finance Program	<u>13,065,000</u>
	Total	<u>\$53,335,000</u>

- j. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

August 1, 2016	Homeownership Program	\$9,125,000
	Housing Finance Program	6,795,000
	Residential Finance Program	<u>7,770,000</u>
	Total	<u>\$23,690,000</u>

- k. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

September 1, 2016	Homeownership Program	\$10,600,000
	Housing Finance Program	6,940,000
	Residential Finance Program	<u>8,775,000</u>
	Total	<u>\$26,315,000</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYEE BENEFITS SCHEDULE OF FUNDING PROGRESS
(Expressed in Thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2010	State Employee Group Plan	\$ -0-	\$ 3,316	\$ 3,316	0%	\$ 8,640	38%
7/1/2011	State Employee Group Plan	\$ -0-	\$ 2,919	\$ 2,919	0%	\$ 9,818	30%
7/1/2013	State Employee Group Plan	\$ -0-	\$ 2,964	\$ 2,964	0%	\$ 9,841	30%

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	<u>2014</u>
Tennessee Housing Development Agency's proportion of the net pension liability	.424758%
Tennessee Housing Development Agency's proportionate share of the net pension liability	\$ 2,964
Tennessee Housing Development Agency's covered-employee payroll	\$ 11,601
Tennessee Housing Development Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	25.55%
Plan fiduciary net position as a percentage of the total pension liability	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	<u>2014</u>	<u>2015</u>
Contractually Required Contribution	\$ 1,744	\$ 1,652
Contribution in relation to the contractually required contribution	<u>1,744</u>	<u>1,652</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Tennessee Housing Development Agency's covered-employee payroll		
\$	11,601	\$ 10,994
Contribution as a percentage of Tennessee Housing Development Agency's covered-employee payroll	15.03%	15.03%

This is a 10-year schedule. However, the information in the schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
STATE AND HIGHER EDUCATION EMPLOYEE RETIREMENT PLAN
(Expressed in Thousands)

		<u>2015</u>
Contractually Required Contributions	\$	19
Contributions in relation to the contractually required contribution		<u>(19)</u>
Contribution deficiency (excess)	\$	<u><u>-</u></u>
Tennessee Housing Development Agency's covered-employee payroll	\$	498
Contributions as a percentage of Tennessee Housing Development Agency's covered-employee payroll		3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2015
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 5,915	\$ 13,428	\$ 97,295	\$ 39,330	\$ 119,542	\$ 275,510
Investments	-	-	-	-	42,603	42,603
Receivables:						
Accounts	3	444	15,337	10,259	3,554	29,597
Interest	21	58	6,240	3,594	3,643	13,556
First mortgage loans	6	164	25,100	9,874	18,321	53,465
Due from federal government	28,051	-	-	-	-	28,051
Due from other funds	3,488	-	-	-	-	3,488
Prepaid expenses	10	-	-	-	-	10
Total current assets	37,494	14,094	143,972	63,057	187,663	446,280
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	14,667	-	9,321	1,068	422	25,478
Investments	-	-	135,899	19,837	22,888	178,624
Investment Interest receivable	-	-	1,401	104	68	1,573
Investments	-	4,684	196	1,866	28,310	35,056
First mortgage loans receivable	867	48,246	760,561	436,523	623,580	1,869,777
Second mortgage loans receivable	-	-	12,505	-	-	12,505
Allowance for forgivable second mortgages	-	-	(2,904)	-	-	(2,904)
Advance to local government	3,084	-	-	-	-	3,084
Capital assets:						
Furniture and equipment	1,561	-	-	-	-	1,561
Less accumulated depreciation	(1,049)	-	-	-	-	(1,049)
Total noncurrent assets	19,130	52,930	916,979	459,398	675,268	2,123,705
Total assets	56,624	67,024	1,060,951	522,455	862,931	2,569,985
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	759	981
Deferred outflows related to pensions	1,672	-	-	-	-	1,672
Total deferred outflows of resources	1,672	-	222	-	759	2,653
LIABILITIES						
Current liabilities:						
Accounts payable	11,359	2	35	21	27	11,444
Accrued payroll and related liabilities	587	-	-	-	-	587
Compensated absences	585	-	-	-	-	585
Due to primary government	71	-	-	-	-	71
Interest payable	-	-	15,964	5,807	10,554	32,325
Escrow deposits	-	76	-	-	-	76
Prepayments on mortgage loans	-	-	507	235	423	1,165
Due to federal government	14,667	-	-	-	-	14,667
Due to other funds	-	-	2,065	-	1,423	3,488
Bonds payable	-	-	77,670	23,890	28,895	130,455
Total current liabilities	27,269	78	96,241	29,953	41,322	194,863
Noncurrent liabilities:						
Bonds payable	-	-	673,115	455,975	719,625	1,848,715
Compensated absences	622	-	-	-	-	622
Net pension liability	2,964	-	-	-	-	2,964
Net OPEB obligation	1,516	-	-	-	-	1,516
Escrow deposits	294	495	-	-	1,688	2,477
Arbitrage rebate payable	-	-	2,803	-	-	2,803
Total noncurrent liabilities	5,396	495	675,918	455,975	721,313	1,859,097
Total liabilities	32,665	573	772,159	485,928	762,635	2,053,960
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	4,271	-	-	-	-	4,271
Total deferred inflows of resources	4,271	-	-	-	-	4,271
NET POSITION						
Net investment in capital assets	512	-	-	-	-	512
Restricted for single family bond programs	-	145	289,014	36,527	101,055	426,741
Restricted for grant programs	-	11,302	-	-	-	11,302
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Unrestricted	17,695	55,004	-	-	-	72,699
Total net position	\$ 21,360	\$ 66,451	\$ 289,014	\$ 36,527	\$ 101,055	\$ 514,407

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ 36	\$ 119	\$ 47,964	\$ 23,487	\$ 25,393	\$ 96,999
Investment income:						
Interest	29	27	7,827	664	1,866	10,413
Net increase (decrease) in the fair value of investments	-	(1)	(3,550)	225	(552)	(3,878)
Federal grant administration fees	14,920	-	-	-	-	14,920
Fees and other income	1,431	1	-	-	160	1,592
Total operating revenues	16,416	146	52,241	24,376	26,867	120,046
OPERATING EXPENSES						
Salaries and benefits	15,147	-	-	-	-	15,147
Contractual services	6,475	-	1	2	-	6,478
Materials and supplies	657	-	-	-	-	657
Rentals and insurance	30	-	-	-	-	30
Other administrative expenses	476	-	-	-	-	476
Other program expenses	1,931	108	6,596	549	1,001	10,185
Interest expense	-	-	32,354	16,977	17,058	66,389
Mortgage service fees	-	87	3,225	1,716	2,048	7,076
Issuance costs	-	-	-	1,195	2,343	3,538
Depreciation	345	-	-	-	-	345
Total operating expenses	25,061	195	42,176	20,439	22,450	110,321
Operating income (loss)	(8,645)	(49)	10,065	3,937	4,417	9,725
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	307,010	-	-	-	-	307,010
Other grant revenue	-	-	2	-	-	2
Federal grants expenses	(307,165)	-	-	-	-	(307,165)
Local grants expenses	(15,100)	(200)	-	-	-	(15,300)
Total nonoperating revenues (expenses)	(15,255)	(200)	2	-	-	(15,453)
Income (loss) before transfers	(23,900)	(249)	10,067	3,937	4,417	(5,728)
Transfers (to) other funds	-	-	(3,592)	(13,036)	(9,069)	(25,697)
Transfers from other funds	16,147	9,550	-	-	-	25,697
Change in net position	(7,753)	9,301	6,475	(9,099)	(4,652)	(5,728)
Total net position, July 1	35,906	57,150	282,539	45,626	105,707	526,928
Cumulative effect of a change in accounting principle	(6,793)	-	-	-	-	(6,793)
Total net position, July 1, as restated	29,113	57,150	282,539	45,626	105,707	520,135
Total net position, June 30	\$ 21,360	\$ 66,451	\$ 289,014	\$ 36,527	\$ 101,055	\$ 514,407

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ 360	\$ 3,809	\$ 182,632	\$ 78,039	\$ 115,608	\$ 380,448
Receipts from federal government	14,708	-	-	-	-	14,708
Receipts from other funds	3,634	20	-	-	1,423	5,077
Other miscellaneous receipts	1,431	1	-	-	160	1,592
Acquisition of mortgage loans	-	(8,259)	(9,052)	(1,716)	(231,737)	(250,764)
Payments to service mortgages	-	(87)	(3,225)	(554)	(2,048)	(5,914)
Payments to suppliers	(10,755)	(110)	(2,128)	-	(1,252)	(14,245)
Payments to other funds	-	-	(5,077)	-	-	(5,077)
Payments to or for employees	(16,603)	-	-	-	-	(16,603)
Net cash provided (used) by operating activities	(7,225)	(4,626)	163,150	75,769	(117,846)	109,222
Cash flows from non-capital financing activities:						
Operating grants received	309,192	-	2	-	-	309,194
Transfers in (out)	16,147	9,475	57,588	(13,036)	(70,174)	-
Proceeds from sale of bonds	-	-	-	168,316	309,508	477,824
Operating grants paid	(314,829)	(200)	-	-	-	(315,029)
Cost of issuance paid	-	-	-	(1,195)	(2,343)	(3,538)
Principal payments	-	-	(221,280)	(215,875)	(40,715)	(477,870)
Interest paid	-	-	(40,474)	(20,913)	(13,993)	(75,380)
Net cash provided (used) by non-capital financing activities	10,510	9,275	(204,164)	(82,703)	182,283	(84,799)
Cash flows from capital and related financing activities:						
Purchases of capital assets	(231)	-	-	-	-	(231)
Net cash used by capital and related financing activities	(231)	-	-	-	-	(231)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	3,055	86,016	28,137	59,270	176,478
Purchases of investments	-	(5,036)	(54,090)	(17,044)	(107,486)	(183,656)
Investment interest received	29	178	7,932	680	1,729	10,548
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	7	3	13	23
Net cash provided (used) by investing activities	29	(1,803)	39,865	11,776	(46,474)	3,393
Net increase (decrease) in cash and cash equivalents	3,083	2,846	(1,149)	4,842	17,963	27,585
Cash and cash equivalents, July 1	17,499	10,582	107,765	35,556	102,001	273,403
Cash and cash equivalents, June 30	\$ 20,582	\$ 13,428	\$ 106,616	\$ 40,398	\$ 119,964	\$ 300,988

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2015
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (8,645)	\$ (49)	\$ 10,065	\$ 3,937	\$ 4,417	\$ 9,725
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	345	-	-	-	-	345
Pension expense	442	-	-	-	-	442
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	-	(53)	5,997	(1,895)	(705)	3,344
(Increase) decrease in mortgage interest receivable	8	45	1,486	239	(1,457)	321
(Increase) in deferred pension outflows	(1,672)	-	-	-	-	(1,672)
(Increase) decrease in mortgage loans receivable	294	(4,501)	121,214	56,273	(139,845)	33,435
Decrease in due from federal government	(212)	-	-	-	-	(212)
Decrease in interfund receivables	3,634	20	-	-	1,423	5,077
(Decrease) in interfund payables	-	-	(5,077)	-	-	(5,077)
Increase (decrease) in accounts payable	(1,464)	(62)	(186)	(68)	234	(1,546)
Increase in accrued payroll / compensated absences	75	-	-	-	-	75
(Decrease) in due to primary government	(1)	-	-	-	-	(1)
Increase in arbitrage rebate liability	-	-	1,574	-	-	1,574
Investment income included as operating revenue	(29)	(26)	(4,277)	(889)	(1,314)	(6,535)
Interest expense included as operating expense	-	-	32,354	16,977	17,058	66,389
Issuance cost included as operating expense	-	-	-	1,195	2,343	3,538
Total adjustments	<u>1,420</u>	<u>(4,577)</u>	<u>153,085</u>	<u>71,832</u>	<u>(122,263)</u>	<u>99,497</u>
Net cash provided (used) by operating activities	\$ <u>(7,225)</u>	\$ <u>(4,626)</u>	\$ <u>163,150</u>	\$ <u>75,769</u>	\$ <u>(117,846)</u>	\$ <u>109,222</u>
Noncash investing, capital, and financing activities:						
Increase (decrease) in fair value of investments	\$ -	\$ 7	\$ (4,298)	\$ (179)	\$ (463)	\$ (4,933)
Total noncash investing, capital, and financing activities	\$ <u>-</u>	\$ <u>7</u>	\$ <u>(4,298)</u>	\$ <u>(179)</u>	\$ <u>(463)</u>	\$ <u>(4,933)</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION - MORTGAGE FINANCE PROGRAM
JUNE 30, 2015
(Expressed in Thousands)

	General Fund	Escrow Fund**	Mortgage Finance Program Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 13,275	\$ 153	\$ 13,428
Receivables:			
Accounts	439	5	444
Interest	57	1	58
First mortgage loans	164	-	164
Total current assets	13,935	159	14,094
Noncurrent assets:			
Restricted assets:			
Investments	4,226	458	4,684
First mortgage loans receivable	48,246	-	48,246
Total noncurrent assets	52,472	458	52,930
Total assets	66,407	617	67,024
LIABILITIES			
Current liabilities:			
Accounts payable	2	-	2
Escrow deposits	-	76	76
Total current liabilities	2	76	78
Noncurrent liabilities:			
Escrow deposits	99	396	495
Total noncurrent liabilities	99	396	495
Total liabilities	101	472	573
NET POSITION			
Restricted for single family bond programs	-	145	145
Restricted for grant programs	11,302	-	11,302
Unrestricted	55,004	-	55,004
Total net position	\$ 66,306	\$ 145	\$ 66,451

** The Escrow Funds can only be used for escrow payments.

***UNAUDITED FINANCIAL
INFORMATION***

March 31, 2016

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

	March 31, 2016					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2016
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 12,275	\$ 3,853	\$ 45,401	\$ 27,883	\$ 64,472	\$ 153,884
Investments	-	4,265	5,995	5,895	38,157	54,312
Receivables:						
Accounts	-	426	10,231	6,535	4,145	21,337
Interest	10	115	5,083	3,453	4,842	13,503
First mortgage loans	6	163	18,843	6,588	21,493	47,093
Due from federal government	18,919	-	-	-	-	18,919
Due from other funds	2,037	-	-	-	28	2,065
Prepaid Expenses	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total current assets	<u>33,248</u>	<u>8,822</u>	<u>85,553</u>	<u>50,354</u>	<u>133,137</u>	<u>311,114</u>
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	6,433	-	28,581	3,695	3,695	42,404
Investments	-	-	110,899	17,767	17,767	146,433
Investment interest receivable	-	-	1,694	97	97	1,888
Investments	-	5,559	1,544	1,970	27,737	36,810
First mortgage loans receivable	716	48,007	596,763	368,389	841,261	1,855,136
Second mortgage loans receivable	-	-	18,959	-	-	18,959
Allowance for forgivable second mortgages	-	-	(5,648)	-	-	(5,648)
Advance to local government	3,102	-	-	-	-	3,102
Capital assets:						
Furniture and equipment	1,561	-	-	-	-	1,561
Less accumulated depreciation	<u>(1,049)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,049)</u>
Total noncurrent assets	<u>10,763</u>	<u>53,566</u>	<u>752,792</u>	<u>391,918</u>	<u>890,557</u>	<u>2,099,596</u>
Total assets	<u>44,011</u>	<u>62,388</u>	<u>838,345</u>	<u>442,272</u>	<u>1,023,694</u>	<u>2,410,710</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	759	981
Deferred outflows related to pensions	<u>1,672</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,672</u>
Total deferred outflows of resources	<u>1,672</u>	<u>-</u>	<u>222</u>	<u>-</u>	<u>759</u>	<u>2,653</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 11,739	\$ 2	\$ -	\$ -	\$ -	\$ 11,741
Accrued payroll and related liabilities	2,555	-	-	-	-	2,555
Compensated absences	569	-	-	-	-	569
Due to federal government	5,412	-	-	-	-	5,412
Interest payable	-	-	5,883	3,450	6,712	16,045
Escrow deposits	-	68	-	-	-	68
Prepayments on mortgage loans	-	1	517	260	679	1,457
Due to other funds	-	-	2,065	-	-	2,065
Bonds payable	<u>-</u>	<u>-</u>	<u>34,550</u>	<u>19,265</u>	<u>30,715</u>	<u>84,530</u>
Total current liabilities	<u>20,275</u>	<u>71</u>	<u>43,015</u>	<u>22,975</u>	<u>38,106</u>	<u>124,442</u>
Noncurrent liabilities:						
Bonds payable	-	-	529,716	393,059	835,897	1,758,672
Compensated absences	546	-	-	-	-	546
Net pension liability	2,964	-	-	-	-	2,964
Net OPEB obligation	1,516	-	-	-	-	1,516
Escrow deposits	194	506	-	-	2,750	3,450
Arbitrage rebate payable	<u>-</u>	<u>-</u>	<u>2,803</u>	<u>-</u>	<u>-</u>	<u>2,803</u>
Total noncurrent liabilities	<u>5,220</u>	<u>506</u>	<u>532,519</u>	<u>393,059</u>	<u>838,647</u>	<u>1,769,951</u>
Total liabilities	<u>25,495</u>	<u>577</u>	<u>575,534</u>	<u>416,034</u>	<u>876,753</u>	<u>1,894,393</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	<u>4,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,271</u>
Total deferred inflows of resources	<u>4,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,271</u>
NET POSITION						
Net investment in capital assets	512	-	-	-	-	512
Restricted for single family bond programs	-	41	263,033	26,238	147,700	437,012
Restricted for grant programs	-	10,864	-	-	-	10,864
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Unrestricted	<u>12,252</u>	<u>50,906</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,158</u>
Total net position	<u>\$ 15,917</u>	<u>\$ 61,811</u>	<u>\$ 263,033</u>	<u>\$ 26,238</u>	<u>\$ 147,700</u>	<u>\$ 514,699</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2016

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2016
OPERATING REVENUES						
Mortgage interest income	\$ 21	\$ 71	\$ 26,980	\$ 14,993	\$ 26,955	\$ 69,020
Investment income:						
Interest	22	152	5,388	461	1,552	7,575
Net increase (decrease) in the fair value of investments	-	(105)	(2,750)	176	(180)	(2,859)
Federal grant administration fees	9,757	-	-	-	-	9,757
Fees and other income	2,447	-	-	-	646	3,093
Total operating revenues	12,247	118	29,618	15,630	28,973	86,586
OPERATING EXPENSES						
Salaries and benefits	12,416	-	-	-	-	12,416
Contractual services	4,085	-	-	-	13	4,098
Materials and supplies	864	-	-	-	-	864
Rentals and insurance	16	-	-	-	-	16
Other administrative expenses	382	-	-	-	-	382
Other program expenses	258	58	4,139	230	904	5,589
Interest expense	-	-	18,572	10,341	17,893	46,806
Mortgage service fees	-	69	1,796	1,097	2,156	5,118
Issuance costs	-	-	-	-	1,303	1,303
Total operating expenses	18,021	127	24,507	11,668	22,269	76,592
Operating income (loss)	(5,774)	(9)	5,111	3,962	6,704	9,994
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	197,663	-	-	-	-	197,663
Other grant revenue	-	8	-	-	-	8
Federal grants expenses	(197,635)	-	-	-	-	(197,635)
Local grants expenses	(9,738)	-	-	-	-	(9,738)
Total nonoperating revenues (expenses)	(9,710)	8	-	-	-	(9,702)
Income (loss) before transfers	(15,484)	(1)	5,111	3,962	6,704	292
Transfers (to) other funds	-	(4,639)	(31,092)	(14,251)	-	(49,982)
Transfers from other funds	10,041	-	-	-	39,941	49,982
Change in net position	(5,443)	(4,640)	(25,981)	(10,289)	46,645	292
Total net position, July 1	21,360	66,451	289,014	36,527	101,055	514,407
Total net position, End of period	\$ 15,917	\$ 61,811	\$ 263,033	\$ 26,238	\$ 147,700	\$ 514,699

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2016

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2016
Cash flows from operating activities:						
Receipts from customers	\$ 4,007	\$ 2,321	\$ 164,653	\$ 90,309	\$ 55,892	\$ 317,182
Receipts from federal government	9,363	-	-	-	-	9,363
Receipts from other funds	1,451	-	-	-	-	1,451
Other miscellaneous receipts	2,447	-	-	-	646	3,093
Acquisition of mortgage loans	-	(1,988)	(14,207)	-	(203,664)	(219,859)
Payments to service mortgages	-	(69)	(1,796)	(1,097)	(2,156)	(5,118)
Payments to suppliers	-	(58)	(1,430)	(251)	(944)	(2,683)
Payments to other funds	-	-	-	-	(1,451)	(1,451)
Payments to or for employees	(10,741)	-	-	-	-	(10,741)
Net cash provided (used) by operating activities	6,527	206	147,220	88,961	(151,677)	91,237
Cash flows from non-capital financing activities:						
Operating grants received	197,934	8	-	-	-	197,942
Transfers in (out)	10,041	(4,639)	15,323	(14,251)	(6,474)	-
Proceeds from sale of bonds	-	-	-	-	179,070	179,070
Operating grants paid	(216,398)	-	-	-	-	(216,398)
Cost of issuance paid	-	-	-	-	(1,303)	(1,303)
Principal payments	-	-	(184,805)	(66,765)	(58,995)	(310,565)
Interest paid	-	-	(30,366)	(13,475)	(23,716)	(67,557)
Net cash provided (used) by non-capital financing activities	(8,423)	(4,631)	(199,848)	(94,491)	88,582	(218,811)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	11,599	125,310	20,894	160,551	318,354
Purchases of investments	-	(16,844)	(110,415)	(24,656)	(150,606)	(302,521)
Investment interest received	22	95	5,087	462	1,338	7,004
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	12	10	15	37
Net cash provided (used) by investing activities	22	(5,150)	19,994	(3,290)	11,298	22,874
Net increase (decrease) in cash and cash equivalents	(1,874)	(9,575)	(32,634)	(8,820)	(51,797)	(104,700)
Cash and cash equivalents, July 1	20,582	13,428	106,616	40,398	119,964	300,988
Cash and cash equivalents, End of period	\$ 18,708	\$ 3,853	\$ 73,982	\$ 31,578	\$ 68,167	\$ 196,288

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2016

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2016
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (5,774)	\$ (9)	\$ 5,111	\$ 3,962	\$ 6,704	\$ 9,994
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	3	18	5,106	3,724	(591)	8,260
(Increase) decrease in mortgage interest receivable	11	(1)	1,164	147	(1,015)	306
(Increase) decrease in mortgage loans receivable	133	240	119,930	71,420	(174,438)	17,285
(Increase) in due from federal government	(394)	-	-	-	-	(394)
Decrease in interfund receivables	1,451	-	-	-	-	1,451
(Decrease) in interfund payables	-	-	-	-	(1,451)	(1,451)
Increase (decrease) in accounts payable	9,314	5	(25)	4	1,290	10,588
Increase in accrued payroll / compensated absences	1,876	-	-	-	-	1,876
(Decrease) in due to primary government	(71)	-	-	-	-	(71)
Investment income included as operating revenue	(22)	(47)	(2,638)	(637)	(1,372)	(4,716)
Interest expense included as operating expense	-	-	18,572	10,341	17,893	46,806
Issuance cost included as operating expense	-	-	-	-	1,303	1,303
Total adjustments	12,301	215	142,109	84,999	(158,381)	81,243
Net cash provided (used) by operating activities	\$ 6,527	\$ 206	\$ 147,220	\$ 88,961	\$ (151,677)	\$ 91,237
Noncash investing, capital, and financing activities:						
Increase (Decrease) in fair value of investments	-	(75)	1,657	50	(671)	961
Total noncash investing, capital, and financing activities	\$ -	\$ (75)	\$ 1,657	\$ 50	\$ (671)	\$ 961

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS AND SERVICERS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the "Working Agreements"). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA's security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA's rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent's privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the "O. A. Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA currently has agreements with U.S. Bank and Pinnacle Bank (successor to Magna Bank) (the "Servicers") to service Program Loans (the "Servicing Agreements"). U.S. Bank services approximately 92% of THDA's entire portfolio of mortgage loans made or purchased with bond proceeds. Pinnacle Bank services the remainder. The Servicing Agreements provide for the collection and remittance of Program Loan payments to THDA or a designated depository. Prior to remittance, the Servicer deducts a servicing fee, late charges and amounts to be held in escrow accounts for real property taxes, mortgage and hazard insurance premiums, and assessments. The servicing fee under current Servicing Agreements is 3/8% annually. The Servicer is required to notify THDA in the event of any default on a Program Loan, and the Servicer may conduct foreclosure proceedings with the consent and at the expense of THDA.

The Servicer is required to repurchase any Program Loan from THDA at any time THDA suffers or is threatened with a material loss by reason of the Servicer's failure to perform its obligations under the Servicing Agreement. THDA may also terminate a Servicing Agreement for inadequate performance by the Servicer.

THDA is authorized to service Program Loans but, to date, has not undertaken the servicing function for Program Loans. As set forth under the heading "THDA-Executive Staff Members", THDA hired a Director of Mortgage Servicing in February 2016 and is in the process of developing the infrastructure and staffing necessary for self-servicing of Program Loans. THDA anticipates that it will commence servicing Program Loans in late fall 2016 by bringing in-house the portfolio currently serviced by Pinnacle Bank. THDA anticipates servicing all new production beginning in early 2017. Thereafter, THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

Guide for Servicers

THDA provides each Servicer with a Guide for Servicers (the "Servicer Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax requirements. The Servicer Guide includes substantive servicing requirements, incorporates the limitation on assumption of mortgages contained in the federal tax code, and specifies the procedures to be followed by the Servicer to comply with THDA requirements and the federal tax code. The Servicer Guide also includes a list of the documents that must be maintained by the Servicer, copies of all THDA's servicing and loan assumption forms, together with instructions for their completion and a schedule for the submission of the required forms and reports to THDA.

THDA requires monthly reports from Servicers. Each Servicer's performance is monitored and its servicing record is subject to examination by THDA's staff. Examinations are performed monthly from documentation received from the Servicer.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the "General Residential Finance Program Bond Resolution."

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

"Account" means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

"Accountant" means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

"Act" means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

"Appreciation Bond" means any Bond whose Issue Amount is less than 97.5% of the Maturity Amount.

"Authorized Officer" means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

"Bond" or "Bonds" means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

"Bond Counsel's Opinion" means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

"Bondholder" or "holder" or words of similar import, when used with reference to a Bond means the registered owner of any Outstanding Bond.

"Bond Reserve Fund" means the Bond Reserve Fund established pursuant to Section 5.1.

"Bond Reserve Fund Requirement" means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

"Code" means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

(1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;

(2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

"Program Security" means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

"Projected Cash Flow Statement" means a Certificate delivered pursuant to the provisions of Section 7.11.

"Rating Agency" means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody's and S&P.

"Redemption Account" means the Redemption Account which is established and created in the Revenue Fund pursuant to this Resolution.

"Redemption Date" means the date upon which Bonds are to be called for redemption pursuant to this Resolution.

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

"Refunding Bond" means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

"Resolution" means this Resolution and any amendments or supplements made in accordance with its terms.

"Revenue Fund" means the Revenue Fund established pursuant to Section 5.1.

"Revenues" means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

"S&P" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, and any successor.

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

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

"State" means the State of Tennessee.

"Supplemental Resolution" means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

"THDA" means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

"Trustee" means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI

REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

- (1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or
- (2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or
- (3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

- (1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;
- (2) by bringing suit upon the Bonds;
- (3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of or Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$823,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Amount Outstanding as of August 31, 2016 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A	December 23, 2009	\$100,000,000	--	\$ 13,930,000	3.96%
2010-A/ 2009-B, Subseries B-1	June 17, 2010	74,710,000	\$ 85,290,000	22,100,000	3.85
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	58,910,000	3.15
2011-A/ 2009-B, Subseries B-3	April 14, 2011	40,000,000	60,000,000	17,130,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	62,825,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,290,000	34,710,000	62,055,000	3.01
Issue 2015-A	May 28, 2015	<u>163,850,000</u>	<u> </u>	<u>138,960,000</u>	2.78
TOTAL		<u>\$523,850,000</u>	<u>\$300,000,000</u>	<u>\$375,910,000</u>	

(1) Bond yield.

As of June 30, 2016, 4,010 mortgage loans in the approximate aggregate principal amount of \$358,297,767 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$1,197,690,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of August 31, 2016 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2007-1	March 13, 2007 ⁽²⁾	\$100,000,000	\$ 26,160,000	4.49
2007-2	June 6, 2007 ⁽³⁾	120,000,000	33,175,000	4.53
2007-3	August 7, 2007 ⁽³⁾	150,000,000	36,820,000	4.77
2007-4	October 30, 2007	150,000,000	41,200,000	4.79
2008-1	May 29, 2008	60,000,000	16,550,000	4.93
2009-1	June 11, 2009	50,000,000	20,830,000	4.39
2009-2	September 30, 2009	75,000,000	29,085,000	4.06
2010-1	October 13, 2010	120,700,000	52,640,000	3.57
2011-1	December 1, 2011	141,255,000	84,360,000	3.80
2012-1	July 19, 2012	133,110,000	83,210,000	3.26
2012-2	November 15, 2012	<u>97,625,000</u>	<u>66,390,000</u>	2.92
TOTAL		<u>\$1,197,690,000</u>	<u>\$490,420,000</u>	

(1) Bond yield.

(2) THDA sold Issue 2016-2 under the 2013 General Resolution in the aggregate principal amount of \$125,000,000 on September 14, 2016, which will be issued on October 18, 2016. THDA expects that a portion of the proceeds generated from the sale of Issue 2016-2 will be used to refund Issue 2007-1 bonds outstanding under the 1985 General Resolution.

(3) THDA expects that the proceeds generated from the sale of Issue 2016-3 will be used to refund Issue 2007-2 and Issue 2007-3 bonds outstanding under the 1985 General Resolution.

As of June 30, 2016, 8,723 mortgage loans in the approximate aggregate principal amount of \$559,594,276 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets, including mortgage loans purchased with bond proceeds, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. The mortgage credit certificate may provide assistance to a maximum of approximately \$217,900,000 in aggregate principal amount of single family mortgage loans by the program end date of December 31, 2017. To be eligible for the mortgage credit certificate program, loans must close prior to the program end date and such loans may not be funded with proceeds of qualified mortgage bonds such as the Issue 2016-3 Bonds. While it is possible that the availability of the mortgage credit

certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets, other than its mortgage assets (the "non-mortgage assets"). These non-mortgage assets are invested only in investments authorized by the Act, THDA's investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA's investment of THDA non-mortgage assets to the Executive Director of THDA.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bonds certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds certificates will be printed and delivered.

RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES

General

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, are made in accordance with the Program Loan Procedures described below. To date, the Supplemental Resolutions provide that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

THDA's current income limits range from \$56,100 to \$95,900 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on Bonds issued as federally tax exempt bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code. Such requirements are not applicable to Bonds issued as federally taxable bonds, including the Offered Bonds.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

THDA has agreements with qualified financial institutions to service THDA Program Loans ("Servicers"). Originating Agents, who also qualify as Servicers, may service the Program Loans they originate. If an Originating Agent declines to service these Program Loans, the Originating Agent, with the approval of THDA, may choose another Servicer to do so. Servicers may be mortgage banking firms or commercial banks. A Servicer may transfer any or all of the Program Loans it services to another approved Servicer, with prior THDA approval. THDA Servicers currently are U.S. Bank and Pinnacle Bank (successor to Magna Bank).

THDA is authorized to service Program Loans but, to date, has not undertaken the servicing function for Program Loans. As set forth under the heading "THDA-Executive Staff Members", THDA hired a Director of Mortgage Servicing in February 2016 and is in the process of developing the infrastructure and staffing necessary for self-servicing of Program Loans. THDA anticipates that it will commence servicing Program Loans in late fall 2016 by bringing in-house the portfolio currently serviced by Pinnacle Bank. THDA anticipates servicing all new production beginning in early 2017. Thereafter, THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

THDA requires regular reports from Servicers updating the total number of Program Loans serviced and providing certain information for each Program Loan including, without limitation, delinquency and foreclosure data. THDA's agreements with Servicers (the "Servicing Agreements") provide for the collection and remittance of Program Loan payments to THDA or a designated depository. The Servicers' records relating to serviced Program Loans are subject to examination by THDA's Single Family and Internal Audit Divisions.

THDA provides each Servicer with a Guide for Servicers which sets forth complete requirements and procedures for servicing Program Loans. THDA may terminate any Servicing Agreement when there is inadequate performance by the Servicer. THDA may also require that a Servicer purchase any Program Loan from THDA at any time THDA suffers or is threatened with a material loss by reason of a Servicer's failure to perform its obligations with respect to the Program Loans under the Servicing Agreement. For information about Servicing Agreements and substantive requirements relating to servicing Program Loans, see Appendix C.

November 17, 2016

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$62,000,000 Issue 2016-3 (Federally Taxable)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$62,000,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2016-3 (the "Issue 2016-3 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2016-3 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on September 20, 2016, as amended and supplemented (together, the "Supplemental Resolution," and, together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2016-3 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2016-3 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2016-3 Bonds are being issued to refund certain outstanding obligations of THDA.

We are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2016-3 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.
2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.
3. The Issue 2016-3 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.
4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2016-3 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2016-3 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.

6. The Issue 2016-3 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.

7. Interest on the Issue 2016-3 Bonds is includable in the gross income of the owners thereof for federal income tax purposes.

8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2016-3 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2016-3 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2016-3 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2016-3 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES**Delinquencies and Foreclosures as of June 30, 2016*

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.79%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	154	\$14,078,803	1.78%	1.32% ⁽⁴⁾
VA Guaranteed	4	425,812	1.75	0.85
Privately Insured	1	60,180	0.38	0.41
USDA/RD Guaranteed.....	11	730,297	1.76	(5)
Uninsured.....	<u>11</u>	<u>599,947</u>	3.30	(5)
TOTAL	<u>181</u>	<u>\$15,895,039⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.48%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	392	\$30,675,684	4.54%	2.19% ⁽⁴⁾
VA Guaranteed	14	1,029,600	6.14	1.54
Privately Insured	11	793,504	4.21	0.71
USDA/RD Guaranteed.....	27	2,046,327	4.31	(5)
Uninsured.....	<u>8</u>	<u>475,352</u>	2.40	(5)
TOTAL	<u>452</u>	<u>\$35,020,467⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bonds issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding 1974 General Resolution Transferred Loans transferred to the General Resolution as of June 30, 2014. The delinquency and foreclosure data does not include data regarding Transferred Program Loans expected to be transferred to the General Resolution in connection with the Offered Bonds.

The overall rate of Program Loans in foreclosure was 0.39%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of June 30, 2016 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2016, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	37	\$3,457,063	0.43%	0.73% ⁽⁴⁾
VA Guaranteed	2	98,457	0.88	0.84
Privately Insured	0	0	0.00	0.30
USDA/RD Guaranteed.....	0	0	0.00	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>39</u>	<u>\$3,555,520</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of March 31, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.57%, based on a total of 9,444 Program Loans as of March 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	122	\$10,164,258	1.50%	1.09% ⁽⁴⁾
VA Guaranteed	6	707,269	2.69	0.70
Privately Insured	4	269,086	2.31	0.40
USDA/RD Guaranteed.....	7	542,870	1.16	(5)
Uninsured.....	9	572,807	2.84	(5)
TOTAL	<u>148</u>	<u>\$12,256,290</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.17%, based on a total of 9,444 Program Loans as of March 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	346	\$26,591,556	4.26%	2.50% ⁽⁴⁾
VA Guaranteed	10	712,701	4.48	1.53
Privately Insured	6	359,584	3.47	0.77
USDA/RD Guaranteed.....	24	1,884,229	3.99	(5)
Uninsured.....	8	400,949	2.52	(5)
TOTAL	<u>394</u>	<u>\$29,949,019</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.64%, based on a total of 9,444 Program Loans as of March 31, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2016 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2016, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	55	\$5,165,817	0.68%	0.84% ⁽⁴⁾
VA Guaranteed	3	246,218	1.35	0.87
Privately Insured	0	0	0.00	0.31
USDA/RD Guaranteed.....	2	124,769	0.33	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>60</u>	<u>\$5,536,805</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of December 31, 2015

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.05%, based on a total of 9,187 Program Loans as of December 31, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2015, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2015

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	159	\$12,734,851	2.02%	1.40% ⁽⁴⁾
VA Guaranteed	7	535,395	3.15	0.87
Privately Insured	2	116,656	1.14	0.45
USDA/RD Guaranteed.....	13	801,976	2.12	(5)
Uninsured.....	<u>7</u>	<u>489,121</u>	2.17	(5)
TOTAL	<u>188</u>	<u>\$14,678,000</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.04%, based on a total of 9,187 Program Loans as of December 31, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2015, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2015

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	323	\$24,826,626	4.11%	2.52% ⁽⁴⁾
VA Guaranteed	10	844,972	4.50	1.71
Privately Insured	6	288,704	3.43	0.84
USDA/RD Guaranteed.....	23	1,786,082	3.75	(5)
Uninsured.....	<u>9</u>	<u>497,954</u>	2.79	(5)
TOTAL	<u>371</u>	<u>\$28,244,338</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.82%, based on a total of 9,187 Program Loans as of December 31, 2015 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of December 31, 2015 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2015, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	71	\$6,302,318	0.90%	1.59% ⁽⁴⁾
VA Guaranteed	2	93,518	0.90	1.00
Privately Insured	0	0	0.00	0.32
USDA/RD Guaranteed.....	2	150,812	0.33	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>75</u>	<u>\$6,546,648</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of September 30, 2015

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.95%, based on a total of 8,311 Program Loans as of September 30, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2015, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	142	\$ 9,999,459	1.98%	1.34% ⁽⁴⁾
VA Guaranteed	6	569,317	2.96	0.95
Privately Insured	0	0	0.00	0.47
USDA/RD Guaranteed.....	10	571,925	1.96	(5)
Uninsured.....	4	234,799	1.38	(5)
TOTAL	<u>162</u>	<u>\$11,375,500</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2015.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 3.60%, based on a total of 8,311 Program Loans as of September 30, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2015, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	271	\$21,077,550	3.79%	2.64% ⁽⁴⁾
VA Guaranteed	7	376,411	3.45	1.78
Privately Insured	2	52,059	1.28	0.83
USDA/RD Guaranteed.....	16	1,175,434	3.14	(5)
Uninsured.....	3	120,944	1.04	(5)
TOTAL	299	\$22,802,398 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.83%, based on a total of 8,311 Program Loans as of September 30, 2015 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2015 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2015, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	58	\$5,514,667	0.81%	1.70% ⁽⁴⁾
VA Guaranteed	1	112,137	0.49	1.07
Privately Insured	3	191,336	1.92	0.32
USDA/RD Guaranteed.....	7	465,250	1.38	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	69	\$6,283,390 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these



Tennessee Housing
Development Agency

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2017-1 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that interest on the Issue 2017-1 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"). In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2017-1 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2017-1 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds

\$100,000,000 Issue 2017-1 (Non-AMT)[†]

Dated: Date of Delivery

Due: As shown on inside front cover

The Issue 2017-1 Bonds (the "Issue 2017-1 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on July 1, 2017, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about March 30, 2017.

RBC CAPITAL MARKETS

CITIGROUP

RAYMOND JAMES

AVONDALE PARTNERS

FTN FINANCIAL CAPITAL MARKETS

J.P. MORGAN

WELLS FARGO SECURITIES

February 22, 2017

[†]Interest on the Issue 2017-1 Bonds is not included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$100,000,000 Issue 2017-1 (Non-AMT)[†]

\$23,190,000 Serial Bonds						
<u>Year</u>	<u>Principal Amount Due January 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>	<u>Principal Amount Due July 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
2018	\$ 825,000	0.950%	880461MN5	\$ 950,000	1.050%	880461MP0
2019	960,000	1.250	880461MQ8	965,000	1.350	880461MR6
2020	975,000	1.450	880461MS4	980,000	1.550	880461MT2
2021	990,000	1.700	880461MU9	1,005,000	1.800	880461MV7
2022	1,015,000	1.950	880461MW5	1,025,000	2.000	880461MX3
2023	1,040,000	2.250	880461MY1	1,050,000	2.300	880461MZ8
2024	1,065,000	2.450	880461NA2	1,080,000	2.500	880461NB0
2025	1,095,000	2.750	880461NC8	1,115,000	2.800	880461ND6
2026	1,130,000	2.950	880461NE4	1,145,000	2.950	880461NF1
2027	1,165,000	3.050	880461NG9	1,185,000	3.050	880461NH7
2028	1,205,000	3.150	880461NM6	1,225,000	3.150	880461NN4

\$76,810,000 Term Bonds			
<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
July 1, 2032	\$10,740,000	3.625%	880461NJ3
July 1, 2039	22,370,000	4.000	880461NK0
July 1, 2042 (PAC)	43,700,000	4.000	880461NL8

PRICE OF ISSUE 2017-1 BONDS DUE JULY 1, 2042 (PAC): 107.727%

PRICE OF ALL REMAINING ISSUE 2017-1 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

[†] Interest on the Issue 2017-1 Bonds is not included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY
Residential Finance Program Bonds
\$100,000,000 Issue 2017-1 (Non-AMT)[†]

INTRODUCTION

This Official Statement (the “Official Statement”) provides certain information in connection with the issuance by the Tennessee Housing Development Agency (“THDA”) of its Residential Finance Program Bonds, Issue 2017-1 in the aggregate principal amount of \$100,000,000 (the “Issue 2017-1 Bonds” or the “Offered Bonds”).

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the “Act”). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the “General Resolution”) and by a Resolution adopted by THDA on January 24, 2017, as amended and supplemented by the Bond Finance Committee of THDA (the “Bond Finance Committee”) on February 22, 2017 (the “Issue 2017-1 Supplemental Resolution”). The General Resolution and the Issue 2017-1 Supplemental Resolution are herein collectively referred to as the “Resolution.”

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2017-1 Bonds on January 23, 2017.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of December 31, 2016 (unaudited), Bonds in the aggregate principal amount of \$1,084,495,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$349,195,000 were outstanding under THDA’s Housing Finance Program Resolution (the “2009 General Resolution”), and bonds in the aggregate principal amount of \$453,210,000 were outstanding under THDA’s Homeownership Program Resolution (the “1985 General Resolution”). As of December 31, 2016, no bonds were outstanding under THDA’s Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”). All assets under the 1974 General Resolution have been transferred to the General Resolution. For more information see “Other Financings – Housing Bond Resolution (Mortgage Finance Program)” in Appendix E.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption “SECURITY AND SOURCES OF PAYMENT OF BONDS”. All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the “Bonds”. The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the “Public Pledge Act”). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee’s codification of Article 9 of the Uniform Commercial Code.

[†]Interest on the Issue 2017-1 Bonds is not included in corporations’ calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects that the proceeds of the Issue 2017-1 Bonds will be used to: (i) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (ii) pay capitalized interest, if any; (iii) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (iv) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix G. In addition, mortgage loans previously allocated to certain bonds no longer outstanding under the 1985 General Resolution in an expected aggregate outstanding amount of approximately \$19,971,211 will be transferred to the General Resolution (the "Allocated Program Loans") for cash flow purposes. See "DESCRIPTION OF THE ALLOCATED PROGRAM LOANS" for more information about the Allocated Program Loans.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution, including the Allocated Program Loans and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" shall include the Allocated Program Loans as well as any new Program Loans (including participations therein) financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2017-1 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA does not intend to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance. While the Issue 2017-1 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of December 31, 2016 (unaudited), 11,663 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$1,102,041,600. Based on the outstanding principal balance of Program Loans as of December 31, 2016, approximately 84.81% were FHA insured, approximately 2.10% were VA guaranteed, approximately 6.23% were insured by private mortgage insurance companies, approximately 4.57% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.29% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See "RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data" and Appendix B under the heading "Private Mortgage Insurance Programs".

U.S. Bank National Association (the "Trustee") is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2017-1 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2017-1 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D "2013 GENERAL RESOLUTION". Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, ("DTC"), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F "BOOK-ENTRY-ONLY SYSTEM" for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2017-1 Bonds and is payable on July 1, 2017, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

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Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2017-1 Bonds maturing on July 1, 2032, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2029, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2017-1		
Term Bonds Due July 1, 2032		
<u>Year</u>	<u>Amount Due</u> <u>January 1</u>	<u>Amount Due</u> <u>July 1</u>
2029	\$1,250,000	\$1,275,000
2030	1,305,000	1,325,000
2031	1,355,000	1,385,000
2032	1,410,000	1,435,000 (maturity)

The Issue 2017-1 Bonds maturing on July 1, 2039, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2033, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2017-1		
Term Bonds Due July 1, 2039		
<u>Year</u>	<u>Amount Due</u> <u>January 1</u>	<u>Amount Due</u> <u>July 1</u>
2033	\$1,465,000	\$1,495,000
2034	1,525,000	1,560,000
2035	1,590,000	1,625,000
2036	1,660,000	1,695,000
2037	1,735,000	1,765,000
2038	1,805,000	1,745,000
2039	1,590,000	1,115,000 (maturity)

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The Issue 2017-1 Bonds maturing on July 1, 2042, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2018, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2017-1
PAC Term Bonds Due July 1, 2042**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2018	\$ 515,000	\$ 525,000
2019	535,000	545,000
2020	555,000	570,000
2021	580,000	590,000
2022	600,000	615,000
2023	625,000	640,000
2024	650,000	665,000
2025	680,000	690,000
2026	705,000	720,000
2027	735,000	750,000
2028	765,000	780,000
2029	795,000	810,000
2030	825,000	845,000
2031	860,000	875,000
2032	895,000	915,000
2033	930,000	950,000
2034	970,000	990,000
2035	1,010,000	1,030,000
2036	1,050,000	1,120,000
2037	1,140,000	1,165,000
2038	1,185,000	1,160,000
2039	1,230,000	1,255,000
2040	1,215,000	1,240,000
2041	1,260,000	1,290,000
2042	1,315,000	1,340,000 (maturity)

Optional Redemption. The Issue 2017-1 Bonds maturing on and after January 1, 2027, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after July 1, 2026, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2017-1 Principal Payments (as defined below). Any Excess 2017-1 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing July 1, 2017; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2017-1 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds are equal to or less than 400% PSA (as defined below under "ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds"), as determined by THDA, then available Excess 2017-1 Principal Payments shall first be applied to redeem PAC Bonds up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds and, subject to the application of the 10-year rule as described below under the heading "*Mandatory Redemption – 10 Year Rule*," the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds are in excess of 400% PSA, as determined by THDA, then available Excess 2017-1 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds shall first be applied to redeem PAC Bonds and,

subject to the application of the 10-year rule as described below under the heading “*Mandatory Redemption – 10 Year Rule*,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an “Excess Principal PAC Bond Redemption”); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2017-1 Principal Payments which is in excess of 400% PSA and (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds’ proportionate amount of all Issue 2017-1 Bonds then Outstanding.

“Excess 2017-1 Principal Payments” means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

“Planned Amortization Amount” means the dollar amount for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the Issue 2017-1 PAC Bonds assumed to be redeemed from Excess 2017-1 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds. See “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds” for a description of PSA prepayment rates.

The Planned Amortization Amounts for the Issue 2017-1 PAC Bonds (which assumes the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination, the allocation of the Allocated Program Loans to the Offered Bonds in an aggregate principal amount of approximately \$19,971,211 with an approximate weighted average maturity of 260 months, and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedule

<u>Date</u>	<u>Issue 2017-1 PAC Bonds Planned Amortization Amount</u>
July 1, 2017	\$ 360,000
January 1, 2018	1,410,000
July 1, 2018	3,015,000
January 1, 2019	5,160,000
July 1, 2019	7,820,000
January 1, 2020	10,935,000
July 1, 2020	14,175,000
January 1, 2021	17,275,000
July 1, 2021	20,230,000
January 1, 2022	23,045,000
July 1, 2022	25,725,000
January 1, 2023	28,270,000
July 1, 2023	30,685,000
January 1, 2024	32,975,000
July 1, 2024	35,140,000
January 1, 2025	37,185,000
July 1, 2025	39,105,000
January 1, 2026	40,910,000
July 1, 2026	42,605,000
January 1, 2027	43,700,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the PAC Bonds are redeemed from amounts on deposit in the Issue 2017-1 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds.”

Special Optional Redemption of the Offered Bonds, including Cross Calls The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading “DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds”; (ii) except as otherwise described under the headings “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and “ – Mandatory Redemption – 10 Year Rule”, repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, “Code”), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and (b) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bond to exceed the Planned Amortization Amount shown above in the PAC Bonds Amortization Schedule. The Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph.. See “ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments” and “ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices”.

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof financed with proceeds of the Offered Bonds shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. This requirement does not apply to the Allocated Program Loans. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedule only if there are no other Offered Bonds outstanding.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans (or portions thereof) financed with proceeds of the Offered Bonds in accordance with the following approximate 10 year rule percentages to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Commencement Date</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
March 30, 2017	0%
March 30, 2027	100%

THDA will redeem the Offered Bonds in accordance with this schedule to the extent required to comply with the Code. THDA reserves the right to modify this schedule at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory redemption on December 1, 2017, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2017-1 Bonds Subaccount of the Loan Fund on November 1, 2017, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2017-1 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on September 1, 2020, to the extent any amounts remain on deposit in the Issue 2017-1 Bonds Subaccount of the Loan Fund on August 1, 2020.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding.

Selection By Lot

If less than all of the Issue 2017-1 Bonds of like series and maturity are to be redeemed, the particular Issue 2017-1 Bonds of such series and maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

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APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2017-1 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 100,000,000.00
Premium on Issue 2017-1 PAC Bonds.....	3,376,699.00
Allocated Program Loans	19,971,211.00
TOTAL SOURCES	<u>\$ 123,347,910.00</u>

USES

Deposit to Loan Fund ⁽¹⁾	\$ 119,971,211.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,000,000.00
Deposit to Bond Reserve Fund	1,527,761.47
Costs of Issuance	240,600.00
Underwriters' Fee	608,337.53
TOTAL USES.....	<u>\$ 123,347,910.00</u>

(1) Includes \$100,000,000.00 in proceeds from Issue 2017-1 plus approximately \$19,971,211.00 in Allocated Program Loans.

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain

an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumptions that (i) Allocated Program Loans in the aggregate principal amount of approximately \$19,971,211, with a weighted average maturity of approximately 260 months and a weighted average interest rate of approximately 6.35%, will be allocated to the Offered Bonds and (ii) THDA originates approximately \$100,000,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 4.24%. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2017-1 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single

family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA, including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See “RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans” for descriptions of the various Program Loan products and Appendix G “RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES” for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2017-1 Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 4.24% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2017-1 Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2017-1 Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on December 2, 2016. As of February 13, 2017, THDA has committed a total principal amount of approximately \$43,100,000 of Program Loans, all of which are Great Choice Program Loans and Homeownership for the Brave Program Loans, that will be allocated to the Offered Bonds. See “RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans”. Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

In recent years a number of financial institutions and related entities have announced large losses as a result of their mortgage activities and the increasing number of defaults and foreclosures on such mortgages. The United States Congress has passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), and may pass additional consumer protection and bankruptcy legislation, as a result of the adverse effects of the mortgage situation on individuals and families in the United States. Likewise, the Tennessee General Assembly may enact consumer protection legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not,

to date, had a material adverse effect on THDA's single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA's activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA's single-family loans could adversely affect the THDA's ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D "2013 GENERAL RESOLUTION"), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans (including Allocated Program Loans) will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds," "- Special Optional Redemption of the Offered Bonds, including Cross Calls" and "- Mandatory Redemption – 10-Year Rule".

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See "DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds."

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA's general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA's current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA's determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D “2013 GENERAL RESOLUTION” for a description of Program Expenses. THDA expects to use funds on deposit in the Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters’ fees, initial Trustee’s fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee’s fees, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see “THDA – THDA Funds”. THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum; and (iii) funds on deposit in the Issue 2017-1 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term “weighted average life” refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association (“PSA”)) prepayment standard or model (commonly referred to as the “PSA Prepayment Model”).

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, “0% PSA” assumes no prepayments of principal on the Program Loans. “25% PSA” assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. “50% PSA” assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. “75% PSA” assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. “100% PSA” assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. “150% PSA” assumes the principal

of Program Loans will prepay at a rate 1.50 times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “200% PSA” assumes the principal of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. “300% PSA” assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “400% PSA” assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “500% PSA” assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors’ housing needs, job transfers, unemployment and mortgagors’ net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under “Changes in Federal or State Law” above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds”, and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2017-1 Bond Subaccount of the Loan Fund is applied to finance Program Loans, (ii) approximately \$19,971,211 of Allocated Program Loans with an approximate weighted average maturity of 260 months and an approximate weighted average interest rate of 6.35% will be allocated to the Offered Bonds, (iii) Excess 2017-1 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iv) the PAC Bonds will be redeemed only in the related Planned Amortization Amounts as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds” and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate. For certain information regarding Allocated Program Loans see “DESCRIPTION OF ALLOCATED PROGRAM LOANS” herein.

Projected Weighted Average Lives for PAC Bonds

Issue 2017-1 PAC Bond	
<u>PSA Speed</u>	<u>Average Life (in years)</u>
0%	14.9
25	13.1
50	9.0
75	6.3
100	5.0
200	5.0
300	5.0
400	5.0
500	3.5

RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

THDA has issued \$1,274,205,000 total original principal amount of bonds under the General Resolution, of which \$1,084,495,000 (unaudited) were outstanding as of December 31, 2016, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of December 31, 2016 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$ 135,075,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	85,155,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	120,265,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	129,575,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	139,810,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	162,615,000	3.25
Issue 2016-1	May 18, 2016	125,000,000	125,000,000	2.68
Issue 2016-2	October 18, 2016	125,000,000	125,000,000	2.68
Issue 2016-3	November 17, 2016	<u>62,000,000</u>	<u>62,000,000</u>	2.97
TOTAL		<u>\$1,274,205,000</u>	<u>\$1,084,495,000</u>	

(1) Bond yield.

Origination Experience

THDA's experience from May 30, 2013, to December 31, 2016, regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution is shown in the following table:

<u>Issue of Bonds</u>	<u>Lendable Proceeds⁽²⁾</u>	<u>Program Loans Financed⁽³⁾ as of December 31, 2016</u>		<u>Weighted Average Interest Rate⁽⁴⁾</u>
		<u>Amount</u>	<u>%</u>	
Issue 2013-1	\$135,268,395	\$135,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	92,340,000	72,206,611	100.00	4.42
Issue 2016-2	<u>91,685,000</u>	<u>88,353,826</u>	96.37	4.25
TOTAL	<u>\$895,093,875</u>	<u>\$891,762,542</u>		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included. All lendable proceeds with respect to the Issue 2016-2 Bonds were committed as of December 2, 2016.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on December 2, 2016, and as of February 13, 2017, THDA has committed a total principal amount of approximately \$43,100,000 of Program Loans that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. The THDA Household Income Limits range from \$56,100 to \$95,900 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2017-1 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance. While the Issue 2017-1 Supplemental Resolution provides that all participations in Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date, including the Allocated Program Loans, were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. Allocated Program Loans financed prior to September 30, 2013, are Great Rate, Great Advantage, Great Start or Homeownership for the Brave Program Loans. On and after October 1, 2013, the THDA primary loan program includes Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. On and after October 1, 2013, THDA provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 4.375%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans. From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans in a principal amount equal to 4% of the purchase price of the property purchased. From October 1, 2014, to September 30, 2016, Great Choice Plus Loans were 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, each Great Choice Plus loan will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

For applications received on or after October 3, 2016, Great Choice Plus Loans will be thirty year 0% interest rate second lien loans in a principal amount up to 5% of the purchase price of the property purchased. No monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. The full original amount will be forgiven at the end of the thirty year term.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA and will not be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans are serviced by the Federation of Appalachian Housing Enterprises, Inc., as of January 1, 2015. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. As of December 1, 2016, the maximum loan amount was increased to \$123,750 for Maury, Williamson, Davidson, Rutherford, Wilson and Sumner Counties. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable.

As of December 31, 2016 (unaudited), 110 New Start Program Loans, with an aggregate principal balance of approximately \$5,483,690, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction.

As of December 31, 2016 (unaudited), 216 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$24,415,681, were outstanding under the General Resolution. Eligible borrowers will also be eligible for Great Choice Plus loans. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became transferred program loans allocable to the Issue 2013-1 Bonds under the General Resolution.

As of December 31, 2016 (unaudited), 194 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$11,445,392, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers prior to October 1, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds. THDA also provided downpayment and closing cost assistance in the form of a grant in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made.

As of December 31, 2016, 2,602 Great Rate, 101 Great Advantage, and 1,761 Great Start Program Loans, with an aggregate principal balance of approximately \$380,089,794, were outstanding under the General Resolution.

Although Allocated Program Loans include Great Rate or Great Start Program Loans, THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of December 31, 2016 (unaudited), 11,663 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$1,102,041,600 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 307.43 months and an approximate weighted average interest rate of 4.45%.

Tables under this heading, "Residential Finance Program Portfolio Data", do not include data about Allocated Program Loans. For more information about Allocated Program Loans see "DESCRIPTION OF THE ALLOCATED PROGRAM LOANS".

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Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of December 31, 2016 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured	9,478	\$ 934,695,916	81.27%	84.81%
VA Guaranteed	251	23,160,512	2.15	2.10
Privately Insured	812	68,663,658	6.96	6.23
USDA/RD Guaranteed	722	50,333,868	6.19	4.57
Uninsured ⁽²⁾	<u>400</u>	<u>25,187,645</u>	<u>3.43</u>	<u>2.29</u>
TOTAL	<u>11,663</u>	<u>\$1,102,041,600⁽⁴⁾</u>	<u>100.00%⁽⁴⁾</u>	<u>100.00%⁽⁴⁾</u>

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution, either upon their direct transfer to the General Resolution or upon the refunding of other THDA obligations are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of December 31, 2016 (unaudited), 812⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$68,663,658 were outstanding under the General Resolution. As of December 31, 2016 (unaudited), THDA had the following information regarding the private mortgage insurers for 736 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance</u> ⁽³⁾	<u>Percent of Total Number of Program Loans</u> ⁽³⁾	<u>Percent of Total Outstanding Balance of Program Loans</u> ⁽³⁾
Commonwealth/CMAC	3	\$ 83,359	0.03%	0.01%
Genworth Mortgage Insurance Corp. (GE)	299	26,729,318	2.56	2.43
MGIC	269	23,458,580	2.31	2.13
PMI Mortgage Insurance Co. ⁽²⁾	2	147,753	0.02	0.01
Radian Guaranty Inc.	6	337,168	0.05	0.03
Republic Mortgage Insurance Corporation	28	2,038,632	0.24	0.18
Triad Guaranty Insurance Corporation ⁽²⁾	8	530,815	0.07	0.05
United Guaranty Residential Insurance Co.	<u>121</u>	<u>10,050,903</u>	<u>1.04</u>	<u>0.91</u>
TOTAL	<u>736</u>	<u>\$63,376,530</u> ⁽⁴⁾	<u>6.31%</u> ⁽⁴⁾	5.75% ⁽⁴⁾

(1) The private mortgage insurer is not identified with respect to 76 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA compiled data with respect to individual private mortgage insurance providers.

(2) Certain private mortgage insurance companies are under the oversight of their respective state insurance regulators and may pay claims at rates less than \$1.00 per \$1.00 of coverage.

(3) Rounded figures.

(4) Rounded total.

Program Loan Interest Rates

The following table summarizes, as of December 31, 2016 (unaudited), the interest rates of the outstanding Program Loans:

<u>Mortgage Rates (%)</u>	<u>Number of Program Loans</u> ⁽¹⁾	<u>Outstanding Balance</u> ⁽²⁾	<u>Percent of Total Number of Program Loans</u> ⁽²⁾	<u>Percent of Total Outstanding Balance</u> ⁽²⁾
0.00-0.99	170	\$ 7,976,692	1.46%	0.72%
1.00-2.99	2	166,631	0.02	0.02
3.00-3.99	3,768	449,208,678	32.31	40.76
4.00-4.49	2,941	343,866,418	25.22	31.20
4.50-4.99	628	47,025,946	5.38	4.27
5.00-5.49	1,176	95,561,178	10.08	8.67
5.50-5.99	1,524	90,121,236	13.07	8.18
6.00-6.49	408	31,850,789	3.50	2.89
6.50-6.99	534	23,639,121	4.58	2.15
7.00-7.49	217	6,041,181	1.86	0.55
7.50-7.99	211	4,583,596	1.81	0.42
8.00-8.49	79	1,931,588	0.68	0.18
8.50-9.49	4	60,642	0.03	0.01
9.50-12.00	<u>1</u>	<u>7,904</u>	<u>0.01</u>	<u>0.00</u>
TOTAL	<u>11,633</u>	<u>\$1,102,041,600</u> ⁽³⁾	<u>100.00%</u> ⁽³⁾	<u>100.00%</u> ⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have passed with no payment received by the last business day of the month in which the second payment was due are

considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

The financial institutions who service Program Loans manage delinquencies by working with borrowers in an attempt to avoid defaults and by sending payment requests to borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

Delinquencies and Foreclosures as of December 31, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.92%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2016

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	182	\$16,994,592	1.92%	1.33% ⁽⁴⁾
VA Guaranteed	8	588,835	3.19	0.80
Privately Insured	14	1,080,351	1.72	0.41 ⁽⁵⁾
USDA/RD Guaranteed.....	17	1,222,844	2.35	⁽⁶⁾
Uninsured.....	<u>3</u>	<u>146,440</u>	0.75	⁽⁶⁾
TOTAL	<u>224</u>	<u>\$20,033,063⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.25%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	489	\$41,481,830	5.16%	2.21% ⁽⁴⁾
VA Guaranteed	14	1,069,711	5.58	1.39
Privately Insured	46	3,377,391	5.67	0.66 ⁽⁵⁾
USDA/RD Guaranteed.....	48	3,680,889	6.65	(6)
Uninsured.....	<u>19</u>	<u>1,152,305</u>	4.75	(6)
TOTAL	<u>606</u>	<u>\$50,762,126</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.87%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of December 31, 2016 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2016, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	82	\$ 8,206,900	0.87%	0.73% ⁽⁴⁾
VA Guaranteed	5	575,617	1.99	0.85
Privately Insured	8	764,257	0.99	0.30 ⁽⁵⁾
USDA/RD Guaranteed.....	4	306,630	0.55	(6)
Uninsured.....	<u>2</u>	<u>150,346</u>	0.50	(6)
TOTAL	<u>101</u>	<u>\$10,003,751</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

DESCRIPTION OF THE ALLOCATED PROGRAM LOANS

General

As of December 31, 2016, the Allocated Program Loans have an approximate weighted average maturity of 263 months and a weighted average interest rate of 6.35% per annum. Average prepayment rate information for the Allocated Program Loans is discussed in “DESCRIPTION OF THE ALLOCATED PROGRAM LOANS – Prepayment Experience of Allocated Program Loans” below. The Allocated Program Loans initially were financed with proceeds of THDA’s Homeownership Program Bonds, Issue 2008-3, issued pursuant to the 1985 General Resolution (the “2008-3 Bonds”) which 2008-3 Bonds are no longer outstanding. It is anticipated that the characteristics of the pool of Allocated Program Loans will be substantially similar to the loans described below (such information below is as of December 31, 2016; the Allocated Program Loans will not be allocable to the Offered Bonds until March 30, 2017, and Allocated Program Loan characteristics may change from December 31, 2016, to March 30, 2017).

Allocated Program Loans by Loan Type

<u>Type of Mortgage</u>	<u>Number</u>	<u>Principal Amount</u> ⁽³⁾	<u>% of Transferred Principal Amount</u>
FHA Insured	215	\$17,314,242	85.51%
VA Guaranteed	3	268,253	1.32
Privately Insured ⁽¹⁾	4	319,404	1.58
USDA/RD Guaranteed	29	2,142,907	10.58
Uninsured ⁽²⁾	<u>4</u>	<u>202,896</u>	<u>1.00</u>
TOTAL	<u>255</u>	<u>20,247,703</u> ⁽⁴⁾	<u>100.00%</u>

(1) This includes Program Loans for which private mortgage insurance was in place at the time of the closing of the respective Program Loan.

(2) Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, and Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Allocated Program Loans

Each private mortgage insurer insuring conventional, privately insured THDA Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least ‘AA’ by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured THDA Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least ‘AA’ by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of December 31, 2016 (unaudited), 4⁽¹⁾ privately insured Allocated Program Loans having an aggregate principal balance of approximately \$319,404 were outstanding. As of December 31, 2016 (unaudited), THDA had the following information regarding the private mortgage insurers for 3 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance</u> ⁽²⁾	<u>Percent of Total Number of Program Loans</u> ⁽²⁾	<u>Percent of Total Outstanding Balance of Program Loans</u> ⁽²⁾
Genworth Mortgage Insurance Corp. (GE)	3	\$216,793 ⁽³⁾	1.18% ⁽³⁾	1.07% ⁽³⁾

(1) The private mortgage insurer is not identified with respect to 1 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA compiled data with respect to individual private mortgage insurance providers.

(2) Rounded figures.

(3) Rounded total.

Prepayment Experience of Allocated Program Loans

The Allocated Program Loans are composed of mortgage loans originally allocable to the 2008-3 Bonds. The table set forth below lists the actual average prepayment rate (principal only) experience as a percentage of the PSA Prepayment Model of the mortgage loans allocable to the 2008-3 Bonds for the 3 month, 6 month and 12 month periods ended on December 31, 2016, based on principal prepayment data available to THDA.

<u>Issue</u>	<u>3 Months</u>	<u>6 Months</u>	<u>12 Months</u>	<u>Since Inception</u>	<u>Weighted Average Interest Rate</u>
2008-3	298%	318%	269%	298%	6.35%

Delinquency Information for the Allocated Program Loans

The overall delinquency rate for the Allocated Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.75%, based on a total of 255 Allocated Program Loans as of December 31, 2016 (unaudited).

Delinquency rates by loan type for the Allocated Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending September 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA</u> ⁽³⁾
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	7	\$520,558	3.26%	1.33% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.80
Privately Insured	0	0	0.00	0.41 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	(6)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(6)
TOTAL	<u>7</u>	<u>\$520,558</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate for the Allocated Program Loans that were ninety (90) days past due was 10.59%, based on a total of 255 Allocated Program Loans as of December 31, 2016 (unaudited).

Delinquency rates by loan type for the Allocated Program Loans that were ninety (90) days past due as of December 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending September 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	24	\$1,977,466	11.16%	2.21% ⁽⁴⁾
VA Guaranteed	1	76,804	33.33	1.39
Privately Insured	1	84,997	25.00	0.66 ⁽⁵⁾
USDA/RD Guaranteed.....	1	81,791	3.45	(6)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(6)
TOTAL	<u>27</u>	<u>\$2,221,059</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The rate of Allocated Program Loans in foreclosure was 3.53%, based on a total of 255 Allocated Program Loans as of December 31, 2016 (unaudited).

The foreclosure rate by loan type for the Allocated Program Loans in foreclosure as of December 31, 2016 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA, by loan type, for the quarter ending September 30, 2016, are shown in the following table:

IN FORECLOSURE AS OF DECEMBER 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	9	\$908,993	4.19%	0.73% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.85
Privately Insured	0	0	0.00	0.30 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	(6)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(6)
TOTAL	<u>9</u>	<u>\$908,993</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the three most recent years and for the three months ended September 30, 2016, and September 30, 2015. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2016, 2015, 2014, and 2013, and from unaudited financial information of THDA for the three months ended September 30, 2016 and September 30, 2015.

Residential Finance Bond Group	Three Months Ended September 30 (Unaudited)		Year Ended June 30 (Audited)			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES:						
Interest on Mortgages	\$ 10,583	\$ 7,775	\$ 36,426	\$ 25,393	\$ 13,518	\$ 222
Investment Income:						
Interest	395	504	2,011	1,866	335	10
Net Increase (decrease) in the Fair Value of Investments	(199)	353	(320)	(552)	(146)	(83)
Fees and Other Income	508	139	953	160	-	76
	<u>11,287</u>	<u>8,771</u>	<u>39,070</u>	<u>26,867</u>	<u>13,707</u>	<u>225</u>
EXPENSES:						
Interest	6,835	5,248	24,876	17,058	9,087	551
Issuance Cost	-	-	2,311	2,343	2,167	1,679
Mortgage Servicing Fees	875	636	2,967	2,048	980	18
Other	186	428	1,157	1,001	239	1
	<u>7,896</u>	<u>6,312</u>	<u>31,311</u>	<u>22,450</u>	<u>12,473</u>	<u>2,249</u>
Excess of Revenues over Expenses	3,391	2,459	7,759	4,417	1,234	(2,024)
Net Position at beginning of period	116,295	101,055	101,055	105,707	(68,279)	-
Other Transfers	(335)	(12,501)	7,481	(9,069)	172,752	(66,255)
Net Position at end of period	<u>\$ 119,351</u>	<u>\$ 91,013</u>	<u>\$ 116,295</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>	<u>\$ (68,279)</u> ⁽¹⁾

⁽¹⁾ On May 30, 2013 THDA issued its Issue 2013-1 Bonds under the General Resolution. Proceeds of the Issue 2013-1 Bonds in an aggregate principal amount of \$75,905,000 were applied to the refunding of THDA's Issue 2003-A Bonds under the 1974 General Resolution and THDA's Issue 2004-1 Bonds under the 1985 General Resolution. While the Issue 2013-1 Bonds were issued on May 30, 2013, the assets allocable to the Issue 2003-A and the Issue 2004-1 Bonds in an aggregate amount of approximately \$99,855,200 did not transfer to the General Resolution until July 1, 2013, the date of the redemption of such bonds. As a result of such transfer, the net position of the General Resolution as of July 1, 2013, was approximately \$31,576,000 (unaudited).

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of December 31, 2016 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 26,510,293	\$ 45,126,736
Federal Home Loan Mortgage Corporation Notes	13,290,000	19,600,556
Fannie Mae Notes	0	23,272,640
Financing Corporation Bonds	0	2,505,007
TOTAL.....	<u>\$ 39,800,293</u>	<u>\$ 90,504,939</u>

As of December 31, 2016 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 0	\$ 23,008,470
Federal Home Loan Mortgage Corporation Notes	0	7,103,248
Fannie Mae Notes	0	11,548,488
TOTAL.....	<u>\$ 0</u>	<u>\$ 41,660,206</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2018.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of December 31, 2016 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$1,886,900,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors⁽¹⁾ are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Brian Bills, Chairman	June 30, 2017	Sr. Vice President, Residential Mortgage Lending SunTrust Mortgage, Inc., Knoxville, TN
Kim Grant Brown	June 30, 2019	Owner, Grant & Company Collierville, TN
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Tre Hargett ⁽²⁾	January, 2021	Secretary of State
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
Ronald K. Jones	June 30, 2020	Executive Director, Trevecca Towers Nashville
David H. Lillard, Jr. ⁽²⁾	January, 2019	State Treasurer
Larry Martin ⁽²⁾	(3)	Commissioner, Department of Finance and Administration
Todd Skelton ⁽²⁾	(3)	Deputy Counsel to the Governor
James Sattler	June 30, 2019	Vice Chair, Chattanooga Housing Authority Board of Commissioners, Chattanooga, TN
Pieter J. van Vuuren	June 30, 2019	President & CEO, First National Bank of McMinnville McMinnville, TN
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Justin Wilson ⁽²⁾	January, 2019	Comptroller of the Treasury
Daisy Fields	(4)	Gallatin, TN

(1) One Board of Directors position appointed by the Speaker of the House is currently vacant.

(2) Ex officio member.

(3) Serves at pleasure of the Governor.

(4) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 230 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Servicing since 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Administrative Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010).

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Connors & Berry (currently Bradley Arant Boulton Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999), Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the "State") amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

As of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ending June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees.

The TCRS covers three large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 58,683 active members in TCRS in the state and higher education employee group at June 30, 2016. This total includes 230 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

The most recent actuarial valuation completed as of June 30, 2015 established the employer contribution rates for the period July 1, 2016 through June 30, 2017. The recently completed June 30, 2016, actuarial valuation will establish employer contribution rates for the period July 1, 2017 through June 30, 2018. The July 1, 2013 actuarial valuation established the employer contribution rates for the two year period beginning July 1, 2014 and ending June 30, 2016.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age 60 or 30 years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute at 5% of salary to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age 65 or the rule of 90 (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan, requiring additional employee contributions, and adjusting

benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute to TCRS 15.03% of salary for the period July 1, 2014 through June 30, 2016 while employees do not contribute to the plan. The July 1, 2013 actuarial valuation established the 15.03% employer contribution rate for this period. The June 30, 2015 actuarial valuation established the employer contribution rate of 15.02% that is applicable for the period July 1, 2016 through June 30, 2017.

An actuarial valuation was performed as of June 30, 2015 to determine the TCRS financial position in order to provide information related to new Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2016 (measurement date of June 30, 2015), the net pension liability for the state and higher education employee group based on the market value of assets was \$1.3 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 91.26%.

Actuarial Data for Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, the overall 4% employer contribution rate to TCRS for the period July 1, 2014 - June 30, 2016, consists of 3.87% for general employees, with the employer rate for judicial and public safety employees being higher at 7.00% and 4.62%, respectively. The employer contribution rate for general employees of 3.87% consists of 2.00% for the ADC and 1.87% for the stabilization reserve.

An actuarial valuation at June 30, 2015 established that the employer overall rate will remain at the minimum statutory level of 4%. For the period July 1, 2016 - June 30, 2017, the employer rate for general employees will be 3.94% while the employer rate for judicial and public safety employees will be 6.27% and 4.69%, respectively. The employer contribution rate for general employees of 3.94% consists of 1.13% for the ADC and 2.81% for the stabilization reserve.

THDA Employer Contributions to TCRS

For THDA, the employer contribution rate for employees hired before July 1, 2014, stated as a percentage of salary, is as follows: 15.03% for the period beginning July 1, 2014, and ending June 30, 2016, based on the actuarial valuation performed as of July 1, 2013 and 15.02% for the period beginning July 1, 2016, and ending June 30, 2017, based on the actuarial evaluation performed as of July 1, 2015. For employees first hired after June 30, 2014, the employer rate is 8.87% for fiscal year ending June 30, 2016, and 8.94% for fiscal year ending June 30, 2017 (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions to TCRS are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	Percentage of THDA Budget
2017 ⁽¹⁾	15.02/9% ⁽²⁾	\$16,398,800 ⁽¹⁾⁽³⁾	\$2,340,940	2.03%
2016	15.03/9 ⁽²⁾	11,965,554	1,581,407	1.30
2015	15.03/9 ⁽²⁾	11,569,902	1,673,881	1.19
2014	15.03/9 ⁽²⁾	11,721,300	1,761,711	1.19
2013	15.03	11,315,872	1,692,847	1.26
2012	14.91	11,005,204	1,632,095	1.36
2011	14.91	10,593,944	1,585,654	1.25
2010	13.02	9,956,646	1,295,272	1.03
2009	13.02	9,267,262	1,201,303	0.98
2008	13.66	9,602,067	1,297,298	1.02
2007	13.58	8,644,241	1,175,459	0.96

(1) Estimated

(2) Varies depending on plan the employee is enrolled in.

(3) The increase in "Total Salary of THDA Employees" from the actual amount for the fiscal year ending June 30, 2016, to the estimated amount for the fiscal year ending June 30, 2017, is due to the additional salaries for approximately thirty-eight (38) positions THDA expects to fill in connection with the servicing activities THDA expects to undertake later in 2017.

For the fiscal year ending June 30, 2016, the salary of THDA employees totaled \$11,965,554, which represents 0.45% of the \$2.677 billion of salary for all state and higher education employees in TCRS.

It is anticipated that there will be upward pressure on the employer contribution rate in the Closed State and Higher Education Employee Pension Plan in future actuarial valuations as deferred investment losses that have been actuarially smoothed are recognized over the next ten years as well as a continuing low earnings environment.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

General Information about the 401(k) and 457 Defined Contribution Plans

The state provides an additional voluntary defined contribution plan to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Employee contribution limits to the 401(k) and 457 plans are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

For the fiscal year ended June 30, 2016, 173 THDA employees made contributions to the 401(k) plan and 10 THDA employees made contributions to the 457 plan. THDA made employer contributions to the 401(k) plan that totaled \$86,335 while THDA employees contributed a total of \$243,815 to the 401(k) plan and the 457 plan.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 43 and 45) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2015, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used a projected unit credit actuarial cost method, indicates that for the fiscal year ended June 30, 2016, the total unfunded actuarial liability of THDA is approximately \$2,923,000 and the annual required contribution for THDA is approximately \$341,000. The annual required contribution consists of the normal cost (the portion of the actuarial present value of OPEB benefits which is allocated to a valuation year by the actuarial cost method) and an amortization of the unfunded actuarial liability. The report may be reviewed at <http://www.tennessee.gov/finance/act/OPEB.html>. The State is not currently funding any actuarially determined OPEB liability, and will continue to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for the fiscal year. The State will charge THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the

various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that interest on the Issue 2017-1 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of

issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a "Premium Bond") over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

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

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, THDA, in the Issue 2017-1 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2017-1 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MRSB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2017-1 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a

change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2017-1 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2017-1 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2017-1 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MSRB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2016, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the three months ended September 30, 2016. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

RBC Capital Markets, LLC, Citigroup Global Markets Inc., Raymond James & Associates, Inc., FTN Financial Capital Markets, J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and Avondale Partners (collectively, the "Underwriters") have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$608,337.53. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

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

Citigroup Global Markets Inc. ("Citigroup"), one of the underwriters of the Offered Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup may compensate UBSFS for their selling efforts with respect to the Offered Bonds.

FTN Financial Capital Markets is a division of First Tennessee Bank National Association and FTB Advisors, Inc. is a wholly-owned subsidiary of First Tennessee Bank National Association. FTN Financial Capital Markets has entered into a distribution agreement with FTB Advisors, Inc. for the distribution of the Offered Bonds at the original issue prices. Such arrangement generally provides that FTN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with FTB Advisors, Inc.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Offered Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Offered Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Offered Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Offered Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show

recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Brian Bills

Chairman

/s/ Ralph M. Perrey

Executive Director



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

APPENDIX A

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and the other postemployment benefits schedule of funding progress, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA
Director
December 19, 2016

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2016, with comparative information presented for the fiscal year ended June 30, 2015. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2016, THDA has originated over 115,000 single-family mortgage loans in its 43-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

More recently, THDA has administered programs under the American Recovery and Reinvestment Act of 2009 (ARRA), including the Homeless Prevention and Rapid Re-Housing Program (HPRP), the Tax Credit Assistance Program (TCAP), the Neighborhood Stabilization Program (NSP), and a Low Income Housing Tax Credit exchange program under Section 1602 of the Act.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated 13-23-105*). This board meets regularly on a bi-monthly basis; however, some committees may meet more often as situations dictate.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discretely presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <http://www.tn.gov/finance/article/fa-accfin-cafr>

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2016

- Total assets decreased by \$90.1 million, or 3.5%.
- Deferred outflows of resources increased \$0.5 million, or 18.4%.
- Total liabilities decreased by \$83.1 million, or 4.1%.
- Net position was \$510.9 million. This is a decrease of \$3.4 million, or 0.7%, from fiscal year 2015.
- Cash and cash equivalents decreased by \$69.3 million, or 23.0%.
- Total investments increased by \$18.4 Million, or 7.2%.
- Bonds payable decreased by \$72.7 million, or 3.67%.
- Deferred inflows of resources decreased \$3.0 million, which was related to pensions.
- THDA originated \$293.4 million in new loans, which is an increase of \$42.7 million, or 17.03%, from the prior year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

FINANCIAL ANALYSIS OF THE AGENCY

Net Position. The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	<u>2016</u>	<u>2015</u>
Current assets	\$ 393,675	\$ 442,792
Capital assets	1,175	512
Other noncurrent assets	<u>2,081,560</u>	<u>2,123,193</u>
Total assets	<u>2,476,410</u>	<u>2,566,497</u>
Deferred outflows of resources	<u>3,142</u>	<u>2,653</u>
Current liabilities	149,798	191,375
Noncurrent liabilities	<u>1,817,534</u>	<u>1,859,097</u>
Total liabilities	<u>1,967,332</u>	<u>2,050,472</u>
Deferred inflows of resources	<u>1,288</u>	<u>4,271</u>
Invested in capital assets	1,175	512
Restricted net position	430,114	441,196
Unrestricted net position	<u>79,643</u>	<u>72,699</u>
Total net position	<u>\$ 510,932</u>	<u>\$ 514,407</u>

2016 to 2015

- THDA's total net position decreased by \$3.4 million because operating income was less than the amount by which nonoperating expenses exceeded nonoperating revenues.
- First and Second mortgage loans (net of allowance for forgivable second mortgages) receivable decreased by \$10.8 million. During FY 2016, single-family mortgage loan originations increased by \$42.7 million, whereas mortgage loan payoffs increased by \$27.4 million and mortgage loan repayments decreased \$2.8 million. In addition, THDA recognized an allowance for future forgiveness of forgivable second mortgages of \$4.9 million for FY 2016.
- Total liabilities decreased \$83.1 million. The decrease is primarily due to a \$72.7 million decrease of bonds payable at June 30, 2016 as compared to June 30, 2015.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

Changes in Net Position. The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	<u>2016</u>	<u>2015</u>
Operating revenues		
Mortgage interest income	\$ 90,235	\$ 96,999
Investment income	5,872	6,535
Other	17,052	16,512
Total operating revenues	<u>113,159</u>	<u>120,046</u>
Operating expenses		
Interest expense	62,045	66,389
Other	41,916	43,932
Total operating expenses	<u>103,961</u>	<u>110,321</u>
Operating income	<u>9,198</u>	<u>9,725</u>
Nonoperating revenues (expenses)		
Grant revenues	269,226	307,012
Grant expenses	<u>(281,899)</u>	<u>(322,465)</u>
Total nonoperating revenues (expenses)	<u>(12,673)</u>	<u>(15,453)</u>
Change in net position	<u>\$ (3,475)</u>	<u>\$ (5,728)</u>

2016 to 2015

Total operating revenues decreased \$6.9 million, primarily due to a decrease in mortgage interest income of \$6.8 million. This is due to new mortgage loan originations having lower interest rates than those associated with mortgage loan repayments.

Total operating expenses decreased \$6.3 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

DEBT ACTIVITY

Bonds outstanding at June 30 were as follows (expressed in thousands):

	<u>2016</u>	<u>2015</u>
Bonds payable	\$1,906,494	\$ 1,979,170

Year Ended June 30, 2016

Total bonds and notes payable decreased \$72.7 million, due primarily to an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling \$306.9 million, with activity arising from two bond issues.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$67.1 million of outstanding bonds into new bond originations with lower interest rates.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard & Poor's Ratings Services (S&P), a division of the The McGraw-Hill Companies, Inc. has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during FY 2016 or FY 2015.

Debt Limits

In accordance with *Tennessee Code Annotated*, 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

GRANT PROGRAMS

During FY 2007 through FY 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors allocated additional THDA funds for grants. These funds established a grant program that was titled by the THDA as the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

	FY 2016	FY 2015	FY 2014 and Prior	Total
<i>Funding Sources:</i>				
THDA	\$ 7,500,000	\$ 7,500,000	\$ 52,300,000	\$ 67,300,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	\$ 7,500,000	\$ 7,500,000	\$ 56,650,000	\$ 71,650,000
<i>Approved Uses:</i>				
Rural repair program (USDA)	\$ -	\$ 700,000	\$ 5,600,000	\$ 6,300,000
Ramp Programs & Hsg Modification	-	150,000	1,200,000	1,350,000
Emergency Repairs	2,700,000	1,800,000	14,000,000	18,500,000
Competitive Grants	2,800,000	2,850,000	31,950,000	37,600,000
Rebuild & Recover	500,000	500,000	2,300,000	3,300,000
Other Grants	1,500,000	1,500,000	1,600,000	4,600,000
Totals	\$ 7,500,000	\$ 7,500,000	\$ 56,650,000	\$ 71,650,000

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the *Great Choice* and the *Great Choice Plus* loan programs were introduced and the *Great Rate*, *Great Advantage* and *Great Start* loan programs were eliminated. The *Great Choice* loan program offers THDA the opportunity to offer a more competitive interest rate on its 30 year fixed rate mortgage product while still offering down payment assistance with the addition of the *Great Choice Plus* loan program which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the *Great Choice Plus* loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15.

A special interest rate reduction on *Great Choice* loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as "*Homeownership for the Brave*", provides a 0.5% rate reduction on the current interest rate for *Great Choice* loans. In addition to the rate reduction, "*Homeownership for the Brave*" applicants are eligible for optional down payment and closing cost assistance through the *Great Choice Plus* second mortgage loan at a 0% interest rate.

All loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages (ARMs), interest-only mortgages, "buy-down" loans, mortgages with a future lump-sum payment due (balloon-type mortgage), or with other similar mortgage terms. THDA does not make or purchase "sub-prime" mortgage loans.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers, who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor's Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at <https://thda.org/homebuyers/homebuyers>

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2016, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

<u>Loan Status</u>	<u>Total Number of Loans Serviced</u>	<u>Number of Loans in Status</u>	<u>Principal Amount</u>	<u>Percentage</u>
60-89 Days Past Due	23,492	508	\$ 39,830,107	2.16%
90+ Days Past Due	23,492	1,503	116,348,733	6.40%
In Foreclosure	23,492	148	12,307,322	0.63%

Note: Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

ECONOMIC FACTORS

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, THDA uses the one-, three-, and five-year Constant Maturity Treasury (CMT) rates as established by the United States Treasury.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

The continuation of relatively low interest rates from a historic perspective increased the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Trent Ridley, Chief Financial Officer at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2016
(Expressed in Thousands)

ASSETS

Current assets:		
Cash and cash equivalents (Note 2)	\$	218,023
Investments (Note 2)		74,211
Receivables:		
Accounts		4,060
Interest		11,944
First mortgage loans		59,075
Due from federal government		26,361
Prepaid expenses		<u>1</u>
Total current assets		<u>393,675</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		13,647
Investments (Note 2)		157,864
Investment interest receivable		1,326
Investments (Note 2)		42,653
First mortgage loans receivable		1,849,432
Second mortgage loans receivable		21,326
Allowance for forgivable second mortgages		(7,808)
Advance to local government		3,107
Net pension asset (Note 6)		13
Capital assets:		
Furniture and equipment		2,631
Less accumulated depreciation		<u>(1,456)</u>
Total noncurrent assets		<u>2,082,735</u>
Total assets		<u>2,476,410</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refundings		981
Deferred outflows related to pensions (Note 6)		<u>2,161</u>
Total deferred outflows of resources		<u>3,142</u>

LIABILITIES

Current liabilities:		
Accounts payable		9,235
Accrued payroll and related liabilities		585
Compensated absences		633
Due to primary government		72
Interest payable		32,300
Escrow deposits		89
Prepayments on mortgage loans		1,161
Due to federal government		1,679
Bonds payable (Note 4)		100,360
Arbitrage rebate payable		<u>3,684</u>
Total current liabilities		<u>149,798</u>
Noncurrent liabilities:		
Bonds payable (Note 4)		1,806,134
Compensated absences		611
Net pension liability (Note 6)		5,429
Net OPEB obligation (Note 10)		1,602
Escrow deposits		3,348
Arbitrage rebate payable		<u>410</u>
Total noncurrent liabilities		<u>1,817,534</u>
Total liabilities		<u>1,967,332</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 6)		<u>1,288</u>
Total deferred inflows of resources		<u>1,288</u>

NET POSITION

Net investment in capital assets		1,175
Restricted for single family bond programs (Note 5 and Note 8)		417,331
Restricted for grant programs (Note 5)		9,617
Restricted for Homebuyers Revolving Loan Program (Note 5)		3,153
Restricted for net pension asset (Note 6)		13
Unrestricted (Note 8)		<u>79,643</u>
Total net position	\$	<u>510,932</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

OPERATING REVENUES

Mortgage interest income	\$ 90,235
Investment income:	
Interest	9,714
Net (decrease) in the fair value of investments	(3,842)
Federal grant administration fees	13,346
Fees and other income	3,706
Total operating revenues	<u>113,159</u>

OPERATING EXPENSES

Salaries and benefits	15,845
Contractual services	4,989
Materials and supplies	1,233
Rentals and insurance	18
Other administrative expenses	571
Other program expenses	9,683
Interest expense	62,045
Mortgage service fees	6,755
Issuance costs	2,311
Depreciation	511
Total operating expenses	<u>103,961</u>
Operating income	<u>9,198</u>

NONOPERATING REVENUES (EXPENSES)

Federal grants revenue	269,217
Other grants revenue	9
Federal grants expenses	(269,057)
Local grants expenses	(12,842)
Total nonoperating revenues (expenses)	<u>(12,673)</u>
Change in net position	<u>(3,475)</u>
Total net position, July 1	<u>514,407</u>
Total net position, June 30	<u>\$ 510,932</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 417,586
Receipts from federal government	12,862
Other miscellaneous receipts	3,706
Acquisition of mortgage loans	(293,475)
Payments to service mortgages	(6,755)
Payments to suppliers	(8,204)
Payments to or for employees	<u>(17,046)</u>
Net cash provided by operating activities	<u>108,674</u>
Cash flows from non-capital financing activities:	
Operating grants received	258,411
Proceeds from sale of bonds	306,902
Operating grants paid	(285,892)
Cost of issuance paid	(2,311)
Principal payments	(373,350)
Interest paid	<u>(68,299)</u>
Net cash used by non-capital financing activities	<u>(164,539)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(1,174)</u>
Net cash used by capital and related financing activities	<u>(1,174)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	332,627
Purchases of investments	(355,001)
Investment interest received	10,008
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	<u>87</u>
Net cash used by investing activities	<u>(12,279)</u>
Net decrease in cash and cash equivalents	(69,318)
Cash and cash equivalents, July 1	<u>300,988</u>
Cash and cash equivalents, June 30	\$ <u><u>231,670</u></u>

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ <u>9,198</u>
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Depreciation	511
Pension expense	566
Changes in assets and liabilities:	
Decrease in accounts receivable	25,537
Decrease in mortgage interest receivable	1,567
(Increase) in deferred pension outflows	(1,586)
Decrease in mortgage loans receivable	10,795
(Increase) in due from federal government	(484)
Increase in accounts payable	2,673
Increase in accrued payroll /	
compensated absences	121
Increase in due to primary government	1
Increase in arbitrage rebate liability	1,291
Investment income (loss) included as operating revenue	(5,872)
Interest expense included as operating expense	62,045
Issuance cost included as operating expense	<u>2,311</u>
Total adjustments	<u>99,476</u>
Net cash provided by operating activities	\$ <u><u>108,674</u></u>
Noncash investing, capital, and financing activities:	
Increase in fair value of investments	\$ <u>68</u>
Total noncash investing, capital, and financing activities	\$ <u><u>68</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cashflows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

d. Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, and Net Pension Assets (see note 6).

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

f. Deferred Amount on Refundings and Bond Premiums and Discounts

1. Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.
2. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

g. Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

h. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

i. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

j. Mortgages

Mortgages are carried at their original amount less collected principal.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

k. Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

l. Allowance for Forgivable Second Mortgages

THDA has offered Down Payment Assistance (DPA) product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage, loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period.

m. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2016, the bank balance was \$3,921,135.08. All bank balances at June 30, 2016, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2016, \$3,307,357.87 was in the BNYM. Of this amount, \$3,057,357.87 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

b. Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Investment Type	June 30, 2016	
	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$131,326,153	0.804
U.S. Treasury Coupon	68,451,345	0.143
U.S. Agency Discount	152,930,920	1.626
Total	<u>\$352,708,418</u>	0.731

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Fair Value Measurements THDA implemented GASB Statement 72 *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2016:

	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets by Fair Value Level	<i>(Thousands)</i>			
Debt securities				
U.S. Agency Coupon	\$131,326	\$-0-	\$131,326	\$-0-
U.S. Treasury Coupon	68,451	68,451	-0-	-0-
U.S. Agency Discount	152,931	-0-	152,931	-0-
Total debt securities	\$352,708	\$68,451	\$284,257	\$-0-

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets as those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets as those securities. Level 3 valuations are derived from valuation techniques in which significant inputs are unobservable.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Credit Risk Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2016, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

June 30, 2016					
Investment Type	Fair Value	U.S. Treasury ¹	AAA	AA+	Not Rated ²
U.S. Agency Coupon	\$131,326,153		\$2,615,164	128,710,989	
U.S. Treasury Coupon	68,451,345	\$68,451,345			
U.S. Agency Discount	152,930,920				152,930,920
Total	\$352,708,418	\$68,451,345	\$2,615,164	\$128,710,989	\$152,930,920

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

Issuer	June 30, 2016	
	<u>Fair Value</u> <u>(Thousands)</u>	<u>% of</u> <u>Portfolio</u>
Federal Home Loan Bank	\$180,760	51.25
Federal Home Loan Mortgage Corp	\$41,153	11.67
Federal National Mortgage Assoc.	\$59,729	16.93

New GASB 79 Disclosures During fiscal year 2016, Tennessee Housing Development Agency implemented *GASB Statement 79, Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that the Tennessee Housing Development Agency to participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of \$5 million or more.

¹This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

²This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 3. ACCOUNTING CHANGE

During fiscal year 2016, Tennessee Housing Development Agency modified the presentation of certain mortgage loans. Prior to fiscal year 2016, mortgage loans in which a foreclosure sale had occurred was reported as a component of Accounts Receivable. Beginning in fiscal year 2016, mortgage loans in which a foreclosure sale has occurred will be reported as Current Portion, First Mortgage Loans receivable.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING				
<i>(Thousands)</i>				
<i>Series</i>	<i>Maturity Range</i>	<i>Issued Amount</i>	<i>Interest Rate (Percent)</i>	<i>Ending Balance 6/30/2016</i>
HOMEOWNERSHIP PROGRAM BONDS				
2006-3	1/1/2008-7/1/2037	\$100,000	3.65 to 5.75	\$24,060
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	28,240
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	34,320
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	39,295
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	43,930
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	17,090
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	1,270
2009-1	1/1/2010-7/1/2029	50,000	0.75 to 5.00	21,330
2009-2	7/1/2010-7/1/2030	75,000	0.90 to 5.00	29,770
2010-1	1/1/2011-7/1/2025	120,700	0.35 to 4.50	53,775
2011-1	7/1/2012-7/1/2042	141,255	0.60 to 4.65	85,930
2012-1	1/1/2013-7/1/2042	133,110	0.80 to 4.50	85,660
2012-2	7/1/2013-7/1/2043	97,625	0.50 to 4.00	68,845
Total Homeownership Program Bonds		<u>\$1,387,690</u>		\$533,515
Plus: Unamortized Bond Premiums				4,444
Less: Unamortized Bond Discount				(42)
Net Homeownership Program Bonds				<u>\$537,917</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2016</u>
HOUSING FINANCE PROGRAM BONDS				
2009-A	1/1/2011-1/1/2040	\$100,000	0.90 to 4.625	\$14,725
2010-A	1/1/2011-7/1/2041	160,000	0.60 to 5.00	23,170
2010-B	7/1/2011-7/1/2041	100,000	0.45 to 4.50	60,835
2011-A	7/1/2011-7/1/2041	100,000	0.45 to 4.50	17,835
2011-B	7/1/2012-7/1/2041	100,000	0.25 to 4.50	64,995
2011-C	7/1/2012-7/1/2041	100,000	0.40 to 4.30	64,395
2015-A	1/1/2016-7/1/2045	150,000	0.30 to 3.85	143,050
Total Housing Finance Program Bonds		<u>\$810,000</u>		\$389,005
Plus: Unamortized Bond Premiums				4,409
Net Housing Finance Program Bonds				<u>\$393,414</u>

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2016</u>
RESIDENTIAL FINANCE PROGRAM BONDS				
2013-1	1/1/2014-7/1/2043	\$215,905	0.40 to 4.00	\$148,735
2013-2	7/1/2014-7/1/2043	121,300	0.45 to 4.65	94,435
2014-1	1/1/2015-7/1/2039	150,000	0.32 to 4.00	129,860
2014-2	7/1/2015-7-1-2045	150,000	0.25 to 4.00	135,780
2015-1	1/1/2016-7/1/2045	150,000	0.50 to 4.05	144,290
2015-2	7/1/2016-1/1/2046	175,000	0.40 to 4.00	175,000
2016-1	1/1/2017-1/1/2047	125,000	0.625 to 3.50	125,000
Total Residential Finance Program Bonds		<u>\$1,087,205</u>		\$953,100
Plus: Unamortized Bond Premiums				22,063
Net Residential Finance Program Bonds				<u>\$975,163</u>
Net Total All Issues				<u>\$1,906,494</u>

Housing Finance Program Bonds The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2016, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2017	\$36,555	\$65,913	\$102,468
2018	62,810	65,922	128,732
2019	65,295	64,018	129,313
2020	66,785	61,979	128,764
2021	71,065	59,768	130,833
2022 – 2026	369,900	260,532	630,432
2027 – 2031	343,540	194,038	537,578
2032 – 2036	367,480	125,252	492,732
2037 – 2041	325,135	60,915	386,050
2042 - 2046	167,055	13,778	180,833
Total	<u>\$1,875,620</u>	<u>\$972,115</u>	<u>\$2,847,735</u>

c. Redemption of Bonds and Notes

During the year ended June 30, 2016, bonds were retired at par before maturity in the Homeownership Program in the amount of \$70,935,000, in the Housing Finance Program in the amount of \$84,975,000, and in the Residential Finance Program in the amount of \$26,440,000. The respective carrying values of the bonds were \$71,940,410,

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

\$85,625,000 and \$27,205,277. This resulted in revenue to the Homeownership Program of \$1,005,410 to the Housing Finance Program of \$650,069, and to the Residential Finance Program of \$765,277.

On June 11, 2016, the agency issued \$150,000,000 in Residential Finance Program Bonds, Issue 2015-1. On January 1, 2016, the agency used \$27,395,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$27,395,000 early redemption). The carrying amount of these bonds was \$27,395,000. The refunding reduced the agency's debt service by \$12,273,421 over the next 20.0 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$4,089,664.

On October 15, 2015, the agency issued \$175,000,000 in Residential Finance Program Bonds, Issue 2015-2. On January 1, 2016, the agency used \$43,070,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$43,070,000 early redemption). The carrying amount of these bonds was \$43,184,624. The refunding reduced the agency's debt service by \$17,407,979 over the next 20.0 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$5,246,191.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2016.

Long-term Liabilities					
(Thousands)					
	Beginning Balance July 1, 2015	Additions	Reductions	Ending Balance June 30, 2016	Amounts Due Within One Year³
Bonds Payable	\$1,948,970	\$300,000	(\$373,350)	\$1,875,620	\$100,360
Plus: Unamortized Bond Premiums	30,333	6,897	(6,314)	30,916	-0-
Less: Unamortized Bond Discounts	(133)	-0-	91	(42)	-0-
Compensated Absences	1,207	129	(92)	1,244	633
Net Pension Liability	2,964	4,176	(1,711)	5,429	-0-
Escrow Deposits	2,553	2,322	(1,438)	3,437	89
Arbitrage Rebate Payable	2,803	1,291	(-0-)	4,094	3,684
Total	\$1,988,697	\$314,815	(\$382,814)	\$1,920,698	\$104,766

³Amounts due within one year include management authorized bond refundings at June 30.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 5. RESTRICTED NET POSITION

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

NOTE 6. PENSION PLANS

a. Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the

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JUNE 30, 2016**

plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided Title 8, Chapters 34-37, *Tennessee Code Annotated* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%

Plus:

Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Tennessee Housing Development Agency employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education

TENNESSEE HOUSING DEVELOPMENT AGENCY
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Employee Pension Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2016 to the Closed State and Higher Education Employee Pension Plan were \$1,539,003 which is 15.03 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability At June 30, 2016, Tennessee Housing Development Agency reported a liability of \$5,428,475 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension liability was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2015 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015 measurement date, Tennessee Housing Development Agency's proportion was 0.421046 percent. The proportion measured as of June 30, 2014 was 0.429581

Pension expense For the year ended June 30, 2016, Tennessee Housing Development Agency recognized a pension expense of \$554,977. Allocated pension expense was \$583,722 before being reduced by \$28,745 due to a change in proportionate share.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2016, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 574,421	\$ 470,017
Net difference between projected and actual earnings on pension plan investments	—	697,846
Changes in proportion	—	114,978
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2015	1,539,003	—
Total	<u>\$ 2,113,424</u>	<u>\$ 1,282,841</u>

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of \$1,539,003 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2017	\$ (438,708.49)
2018	(438,708.49)
2019	(438,708.49)
2020	607,705.99
2021	-
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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Actuarial assumptions The total pension liability as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	\$ 12,719,744	\$ 5,428,475	\$ (716,661)

Pension plan fiduciary net position Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2016, Tennessee Housing Development Agency reported a payable of \$128,363 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2016.

b. State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014 and covers employees hired before July 1, 2014. Employees hired after June 30, 2014 are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37.

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Benefits provided Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation by 1.0 percent multiplied by member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2016 to the State and Higher Education Employee Retirement Plan were \$46,706 which is 2.81 percent of covered payroll. The employer rate is 3.87% of covered payroll except for any salaries derived from Federal funds where the employer rate is 2.00%. The

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset At June 30, 2016, Tennessee Housing Development Agency reported an asset of \$12,713 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension asset was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2015 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015 measurement date, Tennessee Housing Development Agency's proportion was 0.457171 percent, representing the first time presentation of this proportion.

Pension expense For the year ended June 30, 2016, Tennessee Housing Development Agency (THDA) recognized a pension expense of \$10,546.

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2016, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ 4,730
Net difference between projected and actual earnings on pension plan investments	737	—
Tennessee Housing Development Agency's contributions subsequent to the measurement date of June 30, 2015	46,706	—
Total	<u>\$ 47,443</u>	<u>\$ 4,730</u>

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of \$46,706 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2017. Other

**TENNESSEE HOUSING DEVELOPMENT AGENCY
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amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2017	\$	(407)
2018		(407)
2019		(407)
2020		(407)
2021		(591)
Thereafter		(1,774)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions The total pension asset as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	\$ (4,995)	\$ (12,713)	\$ (18,490)

Payable to the Pension Plan

At June 30, 2016, THDA reported a payable of \$13,189 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

c. Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2016 for both defined benefit pension plans was \$565,523.

NOTE 7. DEFERRED COMPENSATION PLANS

The Tennessee Housing Development Agency, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to IRC, Section 457 and the other pursuant to IRC, Section 401(k). The plans are outsourced to third party vendors and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The Tennessee Housing Development Agency provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014 voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of *Public Acts of 2013*, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

The Tennessee Housing Development Agency recognized a pension expense of \$186,417 for employer contributions.

NOTE 8. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

NOTE 9. INSURANCE-RELATED ACTIVITIES

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b. Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property and crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2016, is presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2016, the Risk Management Fund held \$142.9 million in cash designated for payment of claims

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans - the State

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* Section 8-27-201. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. Any employee hired on or after July 1, 2015 is not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation - The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including the Tennessee Housing Development Agency (see Note 11). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy - The premium requirements of plan members of the State Employment Group Plan are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan, adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 25 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retirees 65 years of age or older are provided flat-rate premium subsidies, based on years of service. Retirees with 30 years of service receive \$50 per month; retirees with 25 but less than 30 years of service, \$37.50; and retirees with 15 but less than 20 years of service, \$25.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

THDA Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan
(Thousands)

June 30, 2016

Annual Required Contribution (ARC)	\$341
Interest on the Net OPEB Obligation	57
Adjustment to the ARC	(57)
Annual OPEB cost	341
Amount of contribution	(255)
Increase in Net OPEB Obligation	86
Net OPEB Obligation-beginning of year	1,516
Net OPEB Obligation-end of year	\$1,602

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost (Thousands)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation At Year End (Thousands)</u>
6/30/2016	State Employee Group Plan	\$ 341	74%	\$ 1,602
6/30/2015	State Employee Group Plan	\$ 357	71%	\$ 1,516
6/30/2014	State Employee Group Plan	\$ 346	68%	\$ 1,413

Funded Status and Funding Progress The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2015, was as follows (thousands):

Actuarial valuation date	7/01/2015
Actuarial accrued liability (AAL)	\$ 2,923
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	\$ 2,923
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 10,046
UAAL as a percentage of covered payroll	29%

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2015, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreases to 6% in fiscal year 2016, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

NOTE 11. ON-BEHALF PAYMENTS

During the year ended June 30, 2016, the State of Tennessee made payments of \$6,488 on behalf of THDA for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

NOTE 12. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

NOTE 13. SUBSEQUENT EVENTS

- a. Residential Finance Program Bonds, Issue 2016-3, were authorized by the Board of directors on September 20, 2016, not to exceed \$66,165,000. The sale of the Bonds will occur no later than December 31, 2016.
- b. Residential Finance Bonds, Issue 2016-2, were sold on October 18, 2016. The bond maturities are as follow:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
<u>Series</u>	<u>Maturity Range</u>	<u>Amount</u>	<u>Rate</u>
			<u>(Percent)</u>
2016-2	7/1/2017-1/1/2047	\$125,000	0.720 to 3.500

- c. Residential Finance Bonds, Issue 2016-3, were sold on November 17, 2016. The bond maturities are as follow:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
<u>Series</u>	<u>Maturity Range</u>	<u>Amount</u>	<u>Rate</u>
			<u>(Percent)</u>
2016-3	7/1/2017-7/1/2031	\$62,000	1.000 to 3.500

- d. Residential Finance Program Bonds, Issue 2017-1, were authorized by the Board of directors on January 24, 2017, not to exceed \$100,000,000. The sale of the Bonds will occur no later than June 30, 2017.

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET
STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA;s Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
2016	0.457171%	\$ 13	498	2.60%	142.55%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.421046%	\$ 5,429	\$ 10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of informjamation is available

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
STATE AND HIGHER EDUCATION EMPLOYEE RETIREMENT PLAN
(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA;s Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2016	\$ 47	\$ 47	\$ -	\$ 1,661	2.81%
2015	19	19	-	498	3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2016	\$ 1,539	\$ 1,539	\$ -	\$ 10,240	15.03%
2015	1,652	1,652	-	10,994,	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%
2009	1,201	1,201	-	9,224	13.02%
2008	1,297	1,297	-	9,522	13.62%
2007	1,175	1,175	-	8,627	13.62%

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYEE BENEFITS SCHEDULE OF FUNDING PROGRESS
(Expressed in Thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2011	State Employee Group Plan	\$ -0-	\$ 2,919	\$ 2,919	0%	\$ 9,818	30%
7/1/2013	State Employee Group Plan	\$ -0-	\$ 2,964	\$ 2,964	0%	\$ 9,841	30%
7/1/2015	State Employee Group Plan	\$ -0-	\$ 2,923	\$ 2,923	0%	\$10,046	29%

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2016
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,897	\$ 11,071	\$ 78,576	\$ 31,284	\$ 94,195	\$ 218,023
Investments	-	6,594	10,594	9,395	47,628	74,211
Receivables:						
Accounts	232	359	2,235	537	697	4,060
Interest	-	29	4,522	3,021	4,372	11,944
First mortgage loans	-	1,949	23,393	9,990	23,743	59,075
Due from federal government	26,361	-	-	-	-	26,361
Due from other funds	2,189	-	-	-	-	2,189
Prepaid expenses	1	-	-	-	-	1
Total current assets	31,680	20,002	119,320	54,227	170,635	395,864
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	3,299	-	4,278	3,443	2,627	13,647
Investments	-	-	105,430	17,991	34,443	157,864
Investment Interest receivable	-	-	1,186	33	107	1,326
Investments	-	7,474	501	1,799	32,879	42,653
First mortgage loans receivable	717	46,066	562,052	372,924	867,673	1,849,432
Second mortgage loans receivable	-	-	21,326	-	-	21,326
Allowance for forgivable second mortgage	-	-	(7,808)	-	-	(7,808)
Advance to local government	3,107	-	-	-	-	3,107
Net pension asset	13	-	-	-	-	13
Capital assets:						
Furniture and equipment	2,631	-	-	-	-	2,631
Less accumulated depreciation	(1,456)	-	-	-	-	(1,456)
Total noncurrent assets	8,311	53,540	686,965	396,190	937,729	2,082,735
Total assets	39,991	73,542	806,285	450,417	1,108,364	2,478,599
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	759	981
Deferred outflows related to pensions	2,161	-	-	-	-	2,161
Total deferred outflows of resources	2,161	-	222	-	759	3,142
LIABILITIES						
Current liabilities:						
Accounts payable	9,217	2	12	-	4	9,235
Accrued payroll and related liabilities	585	-	-	-	-	585
Investments purchased	-	-	-	-	-	-
Compensated absences	633	-	-	-	-	633
Due to primary government	72	-	-	-	-	72
Interest payable	-	-	11,236	6,596	14,468	32,300
Escrow deposits	-	89	-	-	-	89
Prepayments on mortgage loans	-	-	399	196	566	1,161
Due to federal government	1,679	-	-	-	-	1,679
Due to other funds	-	-	2,065	-	124	2,189
Bonds payable	-	-	52,870	17,295	30,195	100,360
Arbitrage rebate payable	-	-	3,684	-	-	3,684
Total current liabilities	12,186	91	70,266	24,087	45,357	151,987
Noncurrent liabilities:						
Bonds payable	-	-	485,047	376,119	944,968	1,806,134
Compensated absences	611	-	-	-	-	611
Net pension liability	5,429	-	-	-	-	5,429
Net OPEB obligation	1,602	-	-	-	-	1,602
Escrow deposits	336	509	-	-	2,503	3,348
Arbitrage rebate payable	-	-	410	-	-	410
Total noncurrent liabilities	7,978	509	485,457	376,119	947,471	1,817,534
Total liabilities	20,164	600	555,723	400,206	992,828	1,969,521
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	1,288	-	-	-	-	1,288
Total deferred inflows of resources	1,288	-	-	-	-	1,288
NET POSITION						
Net investment in capital assets	1,175	-	-	-	-	1,175
Restricted for single family bond programs	-	41	250,784	50,211	116,295	417,331
Restricted for grant programs	-	9,617	-	-	-	9,617
Restricted for Homebuyers Revolving Loan	3,153	-	-	-	-	3,153
Restricted for net pension asset	13	-	-	-	-	13
Unrestricted	16,359	63,284	-	-	-	79,643
Total net position	\$ 20,700	\$ 72,942	\$ 250,784	\$ 50,211	\$ 116,295	\$ 510,932

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ 11	\$ 51	\$ 34,588	\$ 19,159	\$ 36,426	\$ 90,235
Investment income:						
Interest	38	200	6,847	618	2,011	9,714
Net increase (decrease) in the fair value of investments	-	(129)	(3,519)	126	(320)	(3,842)
Federal grant administration fees	13,346	-	-	-	-	13,346
Fees and other income	2,753	-	-	-	953	3,706
Total operating revenues	16,148	122	37,916	19,903	39,070	113,159
OPERATING EXPENSES						
Salaries and benefits	15,845	-	-	-	-	15,845
Contractual services	4,976	-	-	-	13	4,989
Materials and supplies	1,233	-	-	-	-	1,233
Rentals and insurance	18	-	-	-	-	18
Other administrative expenses	571	-	-	-	-	571
Other program expenses	323	65	7,993	158	1,144	9,683
Interest expense	-	-	23,713	13,456	24,876	62,045
Mortgage service fees	-	92	2,260	1,436	2,967	6,755
Issuance costs	-	-	-	-	2,311	2,311
Depreciation	511	-	-	-	-	511
Total operating expenses	23,477	157	33,966	15,050	31,311	103,961
Operating income (loss)	(7,329)	(35)	3,950	4,853	7,759	9,198
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	269,217	-	-	-	-	269,217
Other grant revenue	-	9	-	-	-	9
Federal grants expenses	(269,057)	-	-	-	-	(269,057)
Local grants expenses	(12,842)	-	-	-	-	(12,842)
Total nonoperating revenues (expenses)	(12,682)	9	-	-	-	(12,673)
Income (loss) before transfers	(20,011)	(26)	3,950	4,853	7,759	(3,475)
Transfers (to) other funds	-	-	(42,180)	-	-	(42,180)
Transfers from other funds	19,351	6,517	-	8,831	7,481	42,180
Change in net position	(660)	6,491	(38,230)	13,684	15,240	(3,475)
Total net position, July 1	21,360	66,451	289,014	36,527	101,055	514,407
Total net position, June 30	\$ 20,700	\$ 72,942	\$ 250,784	\$ 50,211	\$ 116,295	\$ 510,932

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ -	\$ 3,210	\$ 211,158	\$ 92,903	\$ 110,315	\$ 417,586
Receipts from federal government	12,862	-	-	-	-	12,862
Receipts from other funds	1,299	-	-	-	-	1,299
Other miscellaneous receipts	2,753	-	-	-	953	3,706
Acquisition of mortgage loans	-	(2,627)	(16,894)	-	(273,954)	(293,475)
Payments to service mortgages	-	(92)	(2,260)	(1,436)	(2,967)	(6,755)
Payments to suppliers	(4,980)	(65)	(1,800)	(179)	(1,180)	(8,204)
Payments to other funds	-	-	-	-	(1,299)	(1,299)
Payments to or for employees	(17,046)	-	-	-	-	(17,046)
Net cash provided (used) by operating activities	(5,112)	426	190,204	91,288	(168,132)	108,674
Cash flows from non-capital financing activities:						
Operating grants received	258,403	8	-	-	-	258,411
Transfers in (out)	19,351	6,517	4,178	8,831	(38,877)	-
Proceeds from sale of bonds	-	-	-	-	306,902	306,902
Operating grants paid	(285,892)	-	-	-	-	(285,892)
Cost of issuance paid	-	-	-	-	(2,311)	(2,311)
Principal payments	-	-	(210,520)	(85,445)	(77,385)	(373,350)
Interest paid	-	-	(30,732)	(13,674)	(23,893)	(68,299)
Net cash provided (used) by non-capital financing activities	(8,138)	6,525	(237,074)	(90,288)	164,436	(164,539)
Cash flows from capital and related financing activities:						
Purchases of capital assets	(1,174)	-	-	-	-	(1,174)
Net cash used by capital and related financing activities	(1,174)	-	-	-	-	(1,174)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	18,199	153,221	33,007	200,972	405,399
Purchases of investments	-	(27,712)	(137,209)	(40,381)	(222,471)	(427,773)
Investment interest received	38	205	7,057	685	2,023	10,008
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	39	18	30	87
Net cash provided (used) by investing activities	38	(9,308)	23,108	(6,671)	(19,446)	(12,279)
Net decrease in cash and cash equivalents	(14,386)	(2,357)	(23,762)	(5,671)	(23,142)	(69,318)
Cash and cash equivalents, July 1	20,582	13,428	106,616	40,398	119,964	300,988
Cash and cash equivalents, June 30	\$ 6,196	\$ 11,071	\$ 82,854	\$ 34,727	\$ 96,822	\$ 231,670

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (7,329)	\$ (35)	\$ 3,950	\$ 4,853	\$ 7,759	\$ 9,198
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	511	-	-	-	-	511
Pension expense	566	-	-	-	-	566
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(229)	85	13,102	9,722	2,857	25,537
(Increase) decrease in mortgage interest receivable	21	25	1,723	578	(780)	1,567
(Increase) in deferred pension outflows	(1,586)	-	-	-	-	(1,586)
(Increase) decrease in mortgage loans receivable	133	395	149,884	63,483	(203,100)	10,795
(Increase) in due from federal government	(484)	-	-	-	-	(484)
Decrease in interfund receivables	1,299	-	-	-	-	1,299
(Decrease) in interfund payables	-	-	-	-	(1,299)	(1,299)
Increase (decrease) in accounts payable	1,902	27	(131)	(60)	935	2,673
Increase in accrued payroll / compensated absences	121	-	-	-	-	121
Increase in due to primary government	1	-	-	-	-	1
Increase in arbitrage rebate liability	-	-	1,291	-	-	1,291
Investment income included as operating revenue	(38)	(71)	(3,328)	(744)	(1,691)	(5,872)
Interest expense included as operating expense	-	-	23,713	13,456	24,876	62,045
Issuance cost included as operating expense	-	-	-	-	2,311	2,311
Total adjustments	2,217	461	186,254	86,435	(175,891)	99,476
Net cash provided (used) by operating activities	\$ (5,112)	\$ 426	\$ 190,204	\$ 91,288	\$ (168,132)	\$ 108,674
Noncash investing, capital, and financing activities:						
Increase (decrease) in fair value of investments	\$ -	\$ 6	\$ 559	\$ (220)	\$ (277)	\$ 68
Total noncash investing, capital, and financing activities	\$ -	\$ 6	\$ 559	\$ (220)	\$ (277)	\$ 68

***UNAUDITED FINANCIAL
INFORMATION***

September 30, 2016

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

	September 30, 2016					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 9/30/2016
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,370	\$ 3,942	\$ 43,377	\$ 31,445	\$ 38,808	\$ 118,942
Investments	-	11,992	13,911	4,429	41,100	71,432
Receivables:						
Accounts	475	426	110	178	139	1,328
Interest	-	57	4,389	2,871	4,600	11,917
First mortgage loans	158	1,979	24,666	10,568	26,219	63,590
Due from federal government	19,946	-	-	-	-	19,946
Due from other funds	2,183	-	-	-	-	2,183
Prepaid Expenses	1	-	-	-	-	1
Total current assets	24,133	18,396	86,453	49,491	110,866	289,339
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	9,586	-	11,031	5,367	15,071	41,055
Investments	-	-	97,282	15,987	22,065	135,334
Investment interest receivable	-	-	1,595	104	146	1,845
Investments	-	6,458	-	1,196	20,757	28,411
First mortgage loans receivable	554	46,501	533,907	353,927	906,796	1,841,685
Second mortgage loans receivable	-	-	23,125	-	-	23,125
Allowance for forgivable second mortgages	-	-	(8,865)	-	-	(8,865)
Advance to local government	3,112	-	-	-	-	3,112
Net pension asset	13	-	-	-	-	13
Capital assets:						
Furniture and equipment	2,631	-	-	-	-	2,631
Less accumulated depreciation	(1,456)	-	-	-	-	(1,456)
Total noncurrent assets	14,440	52,959	658,075	376,581	964,835	2,066,890
Total assets	38,573	71,355	744,528	426,072	1,075,701	2,356,229
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	759	981
Deferred outflows related to pensions	2,161	-	-	-	-	2,161
Total deferred outflows of resources	2,161	-	222	-	759	3,142
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 927	\$ 2	\$ -	\$ 1,464	\$ 539	\$ 2,932
Accrued payroll and related liabilities	1,035	-	-	-	-	1,035
Compensated absences	633	-	-	-	-	633
Interest payable	-	-	5,013	3,128	8,122	16,263
Escrow deposits	-	111	-	-	-	111
Prepayments on mortgage loans	-	-	398	194	656	1,248
Due to federal government	7,961	-	-	-	-	7,961
Due to other funds	-	-	2,065	-	118	2,183
Bonds payable	-	-	34,585	19,430	35,325	89,340
Total current liabilities	10,556	113	42,061	24,216	44,760	121,706
Noncurrent liabilities:						
Bonds payable	-	-	449,219	353,699	909,298	1,712,216
Compensated absences	611	-	-	-	-	611
Net pension liability	5,429	-	-	-	-	5,429
Net OPEB obligation	1,602	-	-	-	-	1,602
Escrow deposits	256	527	-	-	3,051	3,834
Arbitrage rebate payable	-	-	409	-	-	409
Total noncurrent liabilities	7,898	527	449,628	353,699	912,349	1,724,101
Total liabilities	18,454	640	491,689	377,915	957,109	1,845,807
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	1,288	-	-	-	-	1,288
Total deferred inflows of resources	1,288	-	-	-	-	1,288
NET POSITION						
Net investment in capital assets	1,175	-	-	-	-	1,175
Restricted for single family bond programs	-	41	253,061	48,157	119,351	420,610
Restricted for grant programs	-	10,893	-	-	-	10,893
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Unrestricted	16,664	59,781	-	-	-	76,445
Total net position	\$ 20,992	\$ 70,715	\$ 253,061	\$ 48,157	\$ 119,351	\$ 512,276

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Three Months Ended September 30, 2016

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 9/30/2016
OPERATING REVENUES						
Mortgage interest income	\$ -	\$ 4	\$ 7,385	\$ 4,234	\$ 10,583	\$ 22,206
Investment income:						
Interest	-	32	1,415	159	395	2,001
Net increase (decrease) in the fair value of investments	-	(6)	(1,374)	(97)	(199)	(1,676)
Federal grant administration fees	3,200	-	-	-	-	3,200
Fees and other income	1,408	-	-	6	508	1,922
Total operating revenues	4,608	30	7,426	4,302	11,287	27,653
OPERATING EXPENSES						
Salaries and benefits	4,436	-	-	-	-	4,436
Contractual services	1,044	-	-	-	1	1,045
Materials and supplies	355	-	-	-	-	355
Rentals and insurance	2	-	-	-	-	2
Other administrative expenses	141	-	-	-	-	141
Other program expenses	99	29	1,237	-	185	1,550
Interest expense	-	-	4,703	2,937	6,835	14,475
Mortgage service fees	-	23	430	324	875	1,652
Total operating expenses	6,077	52	6,370	3,261	7,896	23,656
Operating income (loss)	(1,469)	(22)	1,056	1,041	3,391	3,997
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	56,304	-	-	-	-	56,304
Other grant revenue	-	2	-	-	-	2
Federal grants expenses	(56,219)	-	-	-	-	(56,219)
Local grants expenses	(2,740)	-	-	-	-	(2,740)
Total nonoperating revenues (expenses)	(2,655)	2	-	-	-	(2,653)
Income (loss) before transfers	(4,124)	(20)	1,056	1,041	3,391	1,344
Transfers (to) other funds	-	(2,207)	-	(3,095)	(335)	(5,637)
Transfers from other funds	4,416	-	1,221	-	-	5,637
Change in net position	292	(2,227)	2,277	(2,054)	3,056	1,344
Total net position, July 1	20,700	72,942	250,784	50,211	116,295	510,932
Total net position, End of period	\$ 20,992	\$ 70,715	\$ 253,061	\$ 48,157	\$ 119,351	\$ 512,276

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Three Months Ended September 30, 2016

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 9/30/2016
Cash flows from operating activities:						
Receipts from customers	\$ -	\$ 666	\$ 37,599	\$ 24,621	\$ 39,710	\$ 102,596
Receipts from federal government	3,176	-	-	-	-	3,176
Receipts from other funds	6	-	-	-	-	6
Other miscellaneous receipts	1,408	-	-	6	508	1,922
Acquisition of mortgage loans	-	(1,155)	(2,889)	-	(69,432)	(73,476)
Payments to service mortgages	-	(23)	(430)	(324)	(875)	(1,652)
Payments to suppliers	(5,204)	(29)	(192)	-	-	(5,425)
Payments to federal government	-	-	(3,685)	-	-	(3,685)
Payments to other funds	-	-	-	-	(6)	(6)
Payments to or for employees	(4,076)	-	-	-	-	(4,076)
Net cash provided (used) by operating activities	(4,690)	(541)	30,403	24,303	(30,095)	19,380
Cash flows from non-capital financing activities:						
Operating grants received	69,025	2	-	-	-	69,027
Transfers in (out)	4,416	(2,207)	1,221	(3,095)	(335)	-
Operating grants paid	(63,991)	-	-	-	-	(63,991)
Principal payments	-	-	(53,695)	(20,035)	(29,610)	(103,340)
Interest paid	-	-	(11,343)	(6,653)	(14,111)	(32,107)
Net cash provided (used) by non-capital financing activities	9,450	(2,205)	(63,817)	(29,783)	(44,056)	(130,411)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	7,598	30,315	17,102	61,687	116,702
Purchases of investments	-	(11,988)	(26,363)	(9,627)	(30,867)	(78,845)
Investment interest received	-	5	1,011	90	379	1,485
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	2	5	-	9	16
Net cash provided (used) by investing activities	-	(4,383)	4,968	7,565	31,208	39,358
Net increase (decrease) in cash and cash equivalents	4,760	(7,129)	(28,446)	2,085	(42,943)	(71,673)
Cash and cash equivalents, July 1	6,196	11,071	82,854	34,727	96,822	231,670
Cash and cash equivalents, End of period	\$ 10,956	\$ 3,942	\$ 54,408	\$ 36,812	\$ 53,879	\$ 159,997

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Three Months Ended September 30, 2016

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 9/30/2016
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (1,469)	\$ (22)	\$ 1,056	\$ 1,041	\$ 3,391	\$ 3,997
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(243)	(67)	2,125	359	558	2,732
(Increase) decrease in mortgage interest receivable	-	(1)	128	147	(251)	23
(Increase) decrease in mortgage loans receivable	-	(465)	26,130	18,419	(41,599)	2,485
(Increase) in due from federal government	(24)	-	-	-	-	(24)
Decrease in interfund receivables	6	-	-	-	-	6
(Decrease) in interfund payables	-	-	-	-	(6)	(6)
Increase (decrease) in accounts payable	(3,338)	40	(13)	1,462	1,173	(676)
(Decrease) in arbitrage rebate payable	-	-	(3,685)	-	-	(3,685)
Increase in accrued payroll / compensated absences	450	-	-	-	-	450
(Decrease) in due to primary government	(72)	-	-	-	-	(72)
Investment income included as operating revenue	-	(26)	(41)	(62)	(196)	(325)
Interest expense included as operating expense	-	-	4,703	2,937	6,835	14,475
Total adjustments	(3,221)	(519)	29,347	23,262	(33,486)	15,383
Net cash provided (used) by operating activities	\$ (4,690)	\$ (541)	\$ 30,403	\$ 24,303	\$ (30,095)	\$ 19,380
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	-	(11)	(1,372)	(100)	(189)	(1,672)
Total noncash investing, capital, and financing activities	\$ -	\$ (11)	\$ (1,372)	\$ (100)	\$ (189)	\$ (1,672)

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS AND SERVICERS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the "Working Agreements"). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA's security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA's rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent's privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the "O. A. Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA currently has agreements with U.S. Bank and Pinnacle Bank (successor to Magna Bank) (the "Servicers") to service Program Loans (the "Servicing Agreements"). U.S. Bank services approximately 95% of THDA's entire portfolio of mortgage loans made or purchased with bond proceeds. Pinnacle Bank services the remainder. The Servicing Agreements provide for the collection and remittance of Program Loan payments to THDA or a designated depository. Prior to remittance, the Servicer deducts a servicing fee, late charges and amounts to be held in escrow accounts for real property taxes, mortgage and hazard insurance premiums, and assessments. The servicing fee under current Servicing Agreements is 3/8% annually. The Servicer is required to notify THDA in the event of any default on a Program Loan, and the Servicer may conduct foreclosure proceedings with the consent and at the expense of THDA.

The Servicer is required to repurchase any Program Loan from THDA at any time THDA suffers or is threatened with a material loss by reason of the Servicer's failure to perform its obligations under the Servicing Agreement. THDA may also terminate a Servicing Agreement for inadequate performance by the Servicer.

THDA is authorized to service Program Loans but, to date, has not undertaken the servicing function for Program Loans. As set forth under the heading "THDA-Executive Staff Members", THDA hired a Director of Mortgage Servicing in February 2016 and is in the process of developing the infrastructure and staffing necessary for self-servicing of Program Loans. THDA anticipates that it will commence servicing Program Loans in late fall 2016 by bringing in-house the portfolio currently serviced by Pinnacle Bank. THDA anticipates servicing all new production beginning in early 2017. Thereafter, THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

Guide for Servicers

THDA provides each Servicer with a Guide for Servicers (the "Servicer Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax requirements. The Servicer Guide includes substantive servicing requirements, incorporates the limitation on assumption of mortgages contained in the federal tax code, and specifies the procedures to be followed by the Servicer to comply with THDA requirements and the federal tax code. The Servicer Guide also includes a list of the documents that must be maintained by the Servicer, copies of all THDA's servicing and loan assumption forms, together with instructions for their completion and a schedule for the submission of the required forms and reports to THDA.

THDA requires monthly reports from Servicers. Each Servicer's performance is monitored and its servicing record is subject to examination by THDA's staff. Examinations are performed monthly from documentation received from the Servicer.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the “General Residential Finance Program Bond Resolution.”

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

“Account” means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

“Accountant” means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

“Act” means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

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

“Authorized Officer” means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

“Bond” or “Bonds” means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

“Bond Counsel’s Opinion” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

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

“Bond Reserve Fund” means the Bond Reserve Fund established pursuant to Section 5.1.

“Bond Reserve Fund Requirement” means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

“Code” means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

- (1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;
- (2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

"Program Security" means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

"Projected Cash Flow Statement" means a Certificate delivered pursuant to the provisions of Section 7.11.

"Rating Agency" means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody's and S&P.

"Redemption Account" means the Redemption Account which is established and created in the Revenue Fund pursuant to this Resolution.

"Redemption Date" means the date upon which Bonds are to be called for redemption pursuant to this Resolution.

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

"Refunding Bond" means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

"Resolution" means this Resolution and any amendments or supplements made in accordance with its terms.

"Revenue Fund" means the Revenue Fund established pursuant to Section 5.1.

"Revenues" means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

"S&P" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, and any successor.

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

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

"State" means the State of Tennessee.

"Supplemental Resolution" means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

"THDA" means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

"Trustee" means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI
REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII

PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

(1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or

(2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or

(3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal or of Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$823,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Amount Outstanding as of December 31, 2016 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A	December 23, 2009	\$100,000,000	--	\$ 12,695,000	3.96%
2010-A/ 2009-B, Subseries B-1	June 17, 2010	74,710,000	\$ 85,290,000	19,925,000	3.85
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	54,750,000	3.15
2011-A/ 2009-B, Subseries B-3	April 14, 2011	40,000,000	60,000,000	16,240,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	58,740,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,290,000	34,710,000	56,740,000	3.01
Issue 2015-A	May 28, 2015	<u>163,850,000</u>	<u> </u>	<u>130,105,000</u>	2.78
TOTAL		<u>\$523,850,000</u>	<u>\$300,000,000</u>	<u>\$349,195,000</u>	

(1) Bond yield.

As of December 31, 2016, 3,670 mortgage loans in the approximate aggregate principal amount of \$322,453,605 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$1,197,690,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of December 31, 2016 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2007-1	March 13, 2007	\$100,000,000	\$ 24,835,000	4.49
2007-2	June 6, 2007	120,000,000	30,375,000	4.53
2007-3	August 7, 2007	150,000,000	33,715,000	4.77
2007-4	October 30, 2007	150,000,000	33,200,000	4.79
2008-1	May 29, 2008	60,000,000	15,290,000	4.93
2009-1	June 11, 2009	50,000,000	18,880,000	4.39
2009-2	September 30, 2009	75,000,000	26,655,000	4.06
2010-1	October 13, 2010	120,700,000	50,460,000	3.57
2011-1	December 1, 2011	141,255,000	80,850,000	3.80
2012-1	July 19, 2012	133,110,000	77,990,000	3.26
2012-2	November 15, 2012	<u>97,625,000</u>	<u>60,960,000</u>	2.92
TOTAL		<u>\$1,197,690,000</u>	<u>\$453,210,000</u>	

(1) Bond yield.

As of December 31, 2016, 7,053 mortgage loans in the approximate aggregate principal amount of \$412,674,551 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets, including mortgage loans purchased with bond proceeds, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. The mortgage credit certificate may provide assistance to a maximum of approximately \$217,900,000 in aggregate principal amount of single family mortgage loans by the program end date of December 31, 2017. To be eligible for the mortgage credit certificate program, loans must close prior to the program end date and such loans may not be funded with proceeds of qualified mortgage bonds such as the Issue 2017-1 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets, other than its mortgage assets (the “non-mortgage assets”). These non-mortgage assets are invested only in investments authorized by the Act, THDA’s investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA’s investment of THDA non-mortgage assets to the Executive Director of THDA.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bonds certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds certificates will be printed and delivered.

RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES

General

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2017-1 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

THDA's current income limits range from \$56,100 to \$95,900 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see “Mortgage Eligibility Requirements” below), (ii) yield and investment requirements (see “Requirements Related to Arbitrage” below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a “due on sale” clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a “due on sale” clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

THDA has agreements with qualified financial institutions to service THDA Program Loans ("Servicers"). Originating Agents, who also qualify as Servicers, may service the Program Loans they originate. If an Originating Agent declines to service these Program Loans, the Originating Agent, with the approval of THDA, may choose another Servicer to do so. Servicers may be mortgage banking firms or commercial banks. A Servicer may transfer any or all of the Program Loans it services to another approved Servicer, with prior THDA approval. THDA Servicers currently are U.S. Bank and Pinnacle Bank (successor to Magna Bank).

THDA is authorized to service Program Loans but, to date, has not undertaken the servicing function for Program Loans. As set forth under the heading "THDA-Executive Staff Members", THDA hired a Director of Mortgage Servicing in February 2016 and is in the process of developing the infrastructure and staffing necessary for self-servicing of Program Loans. THDA anticipates that it will commence servicing Program Loans in late fall 2016 by bringing in-house the portfolio currently serviced by Pinnacle Bank. THDA anticipates servicing all new production beginning in early 2017. Thereafter, THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

THDA requires regular reports from Servicers updating the total number of Program Loans serviced and providing certain information for each Program Loan including, without limitation, delinquency and foreclosure data. THDA's agreements with Servicers (the "Servicing Agreements") provide for the collection and remittance of Program Loan payments to THDA or a designated depository. The Servicers' records relating to serviced Program Loans are subject to examination by THDA's Single Family and Internal Audit Divisions.

THDA provides each Servicer with a Guide for Servicers which sets forth complete requirements and procedures for servicing Program Loans. THDA may terminate any Servicing Agreement when there is inadequate performance by the Servicer. THDA may also require that a Servicer purchase any Program Loan from THDA at any time THDA suffers or is threatened with a material loss by reason of a Servicer's failure to perform its obligations with respect to the Program Loans under the Servicing Agreement. For information about Servicing Agreements and substantive requirements relating to servicing Program Loans, see Appendix C.

March 30, 2017

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$100,000,000 Issue 2017-1 (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$100,000,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2017-1 (Non-AMT) (the "Issue 2017-1 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2017-1 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on January 24, 2017, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on February 22, 2017 (together, the "Supplemental Resolution," and, together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2017-1 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2017-1 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2017-1 Bonds are being issued to refund certain outstanding obligations of THDA and to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2017-1 Bonds in order that interest on the Issue 2017-1 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2017-1 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.

2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.

3. The Issue 2017-1 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2017-1 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2017-1 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.

6. The Issue 2017-1 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.

7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2017-1 Bonds is excluded from gross income of the owners thereof for federal income tax purposes; (ii) interest on the Issue 2017-1 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on the Issue 2017-1 Bonds will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2017-1 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2017-1 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2017-1 Bonds may have to take interest on such Issue 2017-1 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2017-1 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2017-1 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2017-1 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES**Delinquencies and Foreclosures as of September 30, 2016*

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.09%, based on a total of 10,351 Program Loans as of September 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	190	\$17,536,058	2.13%	1.33% ⁽⁴⁾
VA Guaranteed	5	410,693	2.16	0.80
Privately Insured	3	143,181	1.21	0.41
USDA/RD Guaranteed.....	13	1,130,721	2.11	(5)
Uninsured.....	<u>5</u>	<u>350,498</u>	1.52	(5)
TOTAL	<u>216</u>	<u>\$19,571,150</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.66%, based on a total of 10,351 Program Loans as of September 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	411	\$33,156,480	4.60%	2.21% ⁽⁴⁾
VA Guaranteed	17	1,298,092	7.36	1.39
Privately Insured	11	757,325	4.45	0.66
USDA/RD Guaranteed.....	28	2,065,701	4.55	(5)
Uninsured.....	<u>15</u>	<u>825,855</u>	4.57	(5)
TOTAL	<u>482</u>	<u>\$38,103,452</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bond issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding loans financed pursuant to the 1974 General Resolution that were transferred to the General Resolution as of June 30, 2014. The delinquency and foreclosure data does not include data regarding Allocated Program Loans expected to be transferred to the General Resolution in connection with the Offered Bonds.

The overall rate of Program Loans in foreclosure was 0.56%, based on a total of 10,351 Program Loans as of September 30, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2016 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2016, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	50	\$4,620,684	0.56%	0.73% ⁽⁴⁾
VA Guaranteed	1	108,481	0.43	0.85
Privately Insured	2	102,416	0.81	0.30
USDA/RD Guaranteed.....	5	354,826	0.81	(5)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(5)
TOTAL	<u>58</u>	<u>5,186,407</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of June 30, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.79%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	154	\$14,078,803	1.78%	1.32% ⁽⁴⁾
VA Guaranteed	4	425,812	1.75	0.85
Privately Insured	1	60,180	0.38	0.41
USDA/RD Guaranteed.....	11	730,297	1.76	(5)
Uninsured.....	<u>11</u>	<u>599,947</u>	3.30	(5)
TOTAL	<u>181</u>	<u>\$15,895,039</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.48%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	392	\$30,675,684	4.54%	2.19% ⁽⁴⁾
VA Guaranteed	14	1,029,600	6.14	1.54
Privately Insured	11	793,504	4.21	0.71
USDA/RD Guaranteed.....	27	2,046,327	4.31	(5)
Uninsured.....	8	475,352	2.40	(5)
TOTAL	<u>452</u>	<u>\$35,020,467</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.39%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of June 30, 2016 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2016, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	37	\$3,457,063	0.43%	0.73% ⁽⁴⁾
VA Guaranteed	2	98,457	0.88	0.84
Privately Insured	0	0	0.00	0.30
USDA/RD Guaranteed.....	0	0	0.00	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>39</u>	<u>\$3,555,520</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of March 31, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.57%, based on a total of 9,444 Program Loans as of March 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	122	\$10,164,258	1.50%	1.09% ⁽⁴⁾
VA Guaranteed	6	707,269	2.69	0.70
Privately Insured	4	269,086	2.31	0.40
USDA/RD Guaranteed.....	7	542,870	1.16	(5)
Uninsured.....	<u>9</u>	<u>572,807</u>	2.84	(5)
TOTAL	<u>148</u>	<u>\$12,256,290</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.17%, based on a total of 9,444 Program Loans as of March 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	346	\$26,591,556	4.26%	2.50% ⁽⁴⁾
VA Guaranteed	10	712,701	4.48	1.53
Privately Insured	6	359,584	3.47	0.77
USDA/RD Guaranteed.....	24	1,884,229	3.99	(5)
Uninsured.....	<u>8</u>	<u>400,949</u>	2.52	(5)
TOTAL	<u>394</u>	<u>\$29,949,019</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.64%, based on a total of 9,444 Program Loans as of March 31, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2016 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2016, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	55	\$5,165,817	0.68%	0.84% ⁽⁴⁾
VA Guaranteed	3	246,218	1.35	0.87
Privately Insured	0	0	0.00	0.31
USDA/RD Guaranteed.....	2	124,769	0.33	(5)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(5)
TOTAL	<u>60</u>	<u>\$5,536,805</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of December 31, 2015

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.05%, based on a total of 9,187 Program Loans as of December 31, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2015, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	159	\$12,734,851	2.02%	1.40% ⁽⁴⁾
VA Guaranteed	7	535,395	3.15	0.87
Privately Insured	2	116,656	1.14	0.45
USDA/RD Guaranteed.....	13	801,976	2.12	(5)
Uninsured.....	<u>7</u>	<u>489,121</u>	2.17	(5)
TOTAL	<u>188</u>	<u>\$14,678,000</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.04%, based on a total of 9,187 Program Loans as of December 31, 2015 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2015 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2015, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	323	\$24,826,626	4.11%	2.52% ⁽⁴⁾
VA Guaranteed	10	844,972	4.50	1.71
Privately Insured	6	288,704	3.43	0.84
USDA/RD Guaranteed.....	23	1,786,082	3.75	(5)
Uninsured.....	<u>9</u>	<u>497,954</u>	2.79	(5)
TOTAL	<u>371</u>	<u>\$28,244,338</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.82%, based on a total of 9,187 Program Loans as of December 31, 2015 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of December 31, 2015 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2015, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2015

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	71	\$6,302,318	0.90%	1.59% ⁽⁴⁾
VA Guaranteed	2	93,518	0.90	1.00
Privately Insured	0	0	0.00	0.32
USDA/RD Guaranteed.....	2	150,812	0.33	(5)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(5)
TOTAL	<u>75</u>	<u>\$6,546,648</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2015.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these



Tennessee Housing
Development Agency

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2017-2 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that (i) interest on the Issue 2017-2A Bonds will be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Issue 2017-2B Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"). In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2017-2 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2017-2 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds

\$23,110,000 Issue 2017-2A (AMT)

\$151,890,000 Issue 2017-2B (Non-AMT)[†]

Dated: Date of Delivery

Due: As shown on inside front cover

The Issue 2017-2A Bonds (the "Issue 2017-2A Bonds") and the Issue 2017-2B Bonds (the "Issue 2017-2B Bonds" and, together with the Issue 2017-2A Bonds, the "Issue 2017-2 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on January 1, 2018, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about June 27, 2017.

CITIGROUP

RAYMOND JAMES

FTN FINANCIAL CAPITAL MARKETS

WELLS FARGO SECURITIES

RBC CAPITAL MARKETS

J.P. MORGAN

WILEY BROS.—AINTREE CAPITAL, LLC

May 17, 2017

[†]Interest on the Issue 2017-2B Bonds is not included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$23,110,000 Issue 2017-2A (AMT)

\$23,110,000 Term Bonds			
<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
January 1, 2042 (PAC)	\$23,110,000	4.00%	880461NP9

\$151,890,000 Issue 2017-2B (Non-AMT)[†]

\$74,250,000 Serial Bonds						
<u>Year</u>	<u>Principal Amount Due January 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>	<u>Principal Amount Due July 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
2018	\$1,340,000	0.90%	880461NQ7	\$2,660,000	1.00%	880461NR5
2019	2,680,000	1.10	880461NS3	2,700,000	1.15	880461NT1
2020	2,725,000	1.25	880461NU8	2,745,000	1.35	880461NV6
2021	2,775,000	1.45	880461NW4	2,800,000	1.55	880461NX2
2022	2,830,000	1.65	880461NY0	2,865,000	1.75	880461NZ7
2023	2,895,000	1.85	880461PA0	2,930,000	1.90	880461PB8
2024	2,970,000	2.05	880461PC6	3,010,000	2.15	880461PD4
2025	3,050,000	2.25	880461PE2	3,095,000	2.40	880461PF9
2026	3,140,000	2.55	880461PG7	3,190,000	2.60	880461PH5
2027	3,240,000	2.70	880461PJ1	3,290,000	2.80	880461PK8
2028	3,345,000	2.85	880461PL6	3,400,000	2.95	880461PM4
2029	3,455,000	3.00	880461PN2	3,525,000	3.05	880461PP7
2030	3,595,000	3.15	880461PQ5			

\$77,640,000 Term Bonds			
<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
July 1, 2032	\$19,085,000	3.35%	880461PR3
July 1, 2036	33,465,000	3.70	880461PS1
January 1, 2042 (PAC)	25,090,000	4.00	880461PT9

PRICE OF ISSUE 2017-2A BONDS DUE JANUARY 1, 2042 (PAC): 108.410%

PRICE OF ISSUE 2017-2B BONDS DUE JANUARY 1, 2042 (PAC): 109.009%

PRICE OF ALL REMAINING ISSUE 2017-2 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

[†] Interest on the Issue 2017-2B Bonds is not included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds
\$23,110,000 Issue 2017-2A (AMT)
\$151,890,000 Issue 2017-2B (Non-AMT)[†]

INTRODUCTION

This Official Statement (the “Official Statement”) provides certain information in connection with the issuance by the Tennessee Housing Development Agency (“THDA”) of its Residential Finance Program Bonds, Issue 2017-2A in the aggregate principal amount of \$23,110,000 (the “Issue 2017-2A Bonds”), and Issue 2017-2B in the aggregate principal amount of \$151,890,000 (the “Issue 2017-2B Bonds” and, together with the Issue 2017-2A Bonds, the “Issue 2017-2 Bonds” or the “Offered Bonds”).

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the “Act”). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the “General Resolution”) and by a Resolution adopted by THDA on March 28, 2017, as amended and supplemented by the Bond Finance Committee of THDA (the “Bond Finance Committee”) on May 17, 2017 (the “Issue 2017-2 Supplemental Resolution”). The General Resolution and the Issue 2017-2 Supplemental Resolution are herein collectively referred to as the “Resolution.”

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2017-2 Bonds on March 27, 2017.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of March 31, 2017 (unaudited), Bonds in the aggregate principal amount of \$1,153,580,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$331,675,000 were outstanding under THDA’s Housing Finance Program Resolution (the “2009 General Resolution”), and bonds in the aggregate principal amount of \$343,525,000 were outstanding under THDA’s Homeownership Program Resolution (the “1985 General Resolution”). As of March 31, 2017, no bonds were outstanding under THDA’s Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”). All assets under the 1974 General Resolution have been transferred to the General Resolution. For more information see “Other Financings—Housing Bond Resolution (Mortgage Finance Program)” in Appendix E.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption “SECURITY AND SOURCES OF PAYMENT OF BONDS”. All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the “Bonds”. The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the “Public Pledge Act”). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee’s codification of Article 9 of the Uniform Commercial Code.

[†]Interest on the Issue 2017-2B Bonds is not included in corporations’ calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects to use the proceeds from the issuance of the Issue 2017-2A Bonds to (i) refund all Issue 2007-4 Bonds issued and outstanding under the 1985 General Resolution (the "Prior Bonds"), (ii) make a deposit to the Bond Reserve Fund and (iii) pay Costs of Issuance, Underwriters' Fees and other transaction costs. As a result of the refunding, mortgage loans previously allocable to the Prior Bonds in an expected aggregate outstanding amount of approximately \$39,168,290 will be allocated to the Offered Bonds (the "Transferred Program Loans"). See "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS" for information about the Transferred Program Loans. In addition, other investments allocable to the Prior Bonds in the projected amount of approximately \$1,402,454 will be transferred to accounts established for the Offered Bonds under the General Resolution (the "Transferred Investments"). It is anticipated that the Prior Bonds will be redeemed prior to maturity on July 1, 2017, at the applicable redemption prices thereof plus accrued interest. No assurance can be provided that the Prior Bonds will actually be refunded.

THDA expects that the proceeds of the Issue 2017-2B Bonds will be used to: (i) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (ii) pay capitalized interest, if any; (iii) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (iv) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix G.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution, including the Transferred Program Loans and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" shall include the Transferred Program Loans as well as any new Program Loans (including participations therein) financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2017-2 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property

based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA does not intend to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance. While the Issue 2017-2 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of March 31, 2017 (unaudited), 12,152 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$1,155,767,174. Based on the outstanding principal balance of Program Loans as of March 31, 2017, approximately 85.82% were FHA insured, approximately 1.97% were VA guaranteed, approximately 5.68% were insured by private mortgage insurance companies, approximately 4.40% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.12% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See "RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data" and Appendix B under the heading "Private Mortgage Insurance Programs".

U.S. Bank National Association (the "Trustee") is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2017-2 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2017-2 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D "2013 GENERAL RESOLUTION". Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, ("DTC"), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each series and maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such series and maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F "BOOK-ENTRY-ONLY SYSTEM" for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2017-2 Bonds and is payable on January 1, 2018, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

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Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2017-2A Bonds maturing on January 1, 2042, are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2036, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2017-2A PAC Term Bonds Due January 1, 2042

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2036		\$915,000
2037	\$2,295,000	2,355,000
2038	2,400,000	1,965,000
2039	1,760,000	1,800,000
2040	1,840,000	1,880,000
2041	1,925,000	1,965,000
2042	2,010,000 (maturity)	

The Issue 2017-2B Bonds maturing on July 1, 2032, are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2030, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2017-2B Term Bonds Due July 1, 2032

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2030		\$3,665,000
2031	\$3,735,000	3,815,000
2032	3,895,000	3,975,000 (maturity)

The Issue 2017-2B Bonds maturing on July 1, 2036, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2033, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2017-2B Term Bonds Due July 1, 2036

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2033	\$4,060,000	\$4,145,000
2034	4,240,000	4,330,000
2035	4,430,000	4,525,000
2036	4,625,000	3,110,000 (maturity)

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The Issue 2017-2B Bonds maturing on January 1, 2042, are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2036, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2017-2B
PAC Term Bonds Due January 1, 2042**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2036		\$1,000,000
2037	\$2,535,000	2,585,000
2038	2,645,000	2,155,000
2039	1,930,000	1,975,000
2040	1,920,000	2,015,000
2041	2,060,000	2,110,000
2042	2,160,000 (maturity)	

Optional Redemption. Except as otherwise described in the follow paragraph, the Issue 2017-2 Bonds maturing on and after January 1, 2027, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after July 1, 2026, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

The Issue 2017-2A Bonds maturing January 1, 2042 (the "Issue 2017-2A PAC Bonds") and the Issue 2017-2B Bonds maturing January 1, 2042 (the "Issue 2017-2B PAC Bonds" and, together with the Issue 2017-2A PAC Bonds, the "PAC Bonds") are subject to redemption at the option of THDA prior to their maturity, either as a whole or in part, at any time on or after July 1, 2026, at the Redemption Prices set forth below (expressed as a percentage of the principal amount to be redeemed) plus accrued interest to the date of redemption:

<u>Redemption Period</u>	<u>2017-2A PAC Bonds Redemption Price</u>	<u>2017-2B PAC Bonds Redemption Price</u>
July 1, 2026 to December 31, 2026	101.664%	101.781%
January 1, 2027 to June 30, 2027	101.291	101.380
July 1, 2027 to December 31, 2027	100.896	100.956
January 1, 2028 and Thereafter	100.000	100.000

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2017-2 Principal Payments (as defined below). Any Excess 2017-2 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing January 1, 2018; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2017-2 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds are equal to or less than 400% PSA (as defined below under "ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds"), as determined by THDA, then available Excess 2017-2 Principal Payments shall first be applied to redeem PAC Bonds on a pro rata basis up to an amount correlating to the Planned Amortization Amount (as defined below) for the related PAC Bonds and, subject to the application of the 10-year rule as described below under the heading "*–Mandatory Redemption – 10 Year Rule,*" the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds are in excess of 400% PSA, as determined by THDA, then available Excess 2017-2 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the related PAC Bonds shall first be applied to redeem PAC Bonds on a pro rata basis and, subject to the application of the 10-year rule as described below under the heading "*–Mandatory Redemption – 10 Year Rule,*" the remainder may be applied to any purpose permissible under the Resolution, including

to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an “Excess Principal PAC Bond Redemption”); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2017-2 Principal Payments which is in excess of 400% PSA, (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds’ proportionate amount of all Issue 2017-2 Bonds then Outstanding, and (iii) the PAC Bonds shall be redeemed on a pro rata basis.

“Excess 2017-2 Principal Payments” means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

“Planned Amortization Amount” means the dollar amount applicable to each PAC Bond for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the Issue 2017-2A PAC Bonds and Issue 2017-2B PAC Bonds, respectively, assumed to be redeemed from Excess 2017-2 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds. See “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds” for a description of PSA prepayment rates.

The Planned Amortization Amounts for the Issue 2017-2A PAC Bonds and Issue 2017-2B PAC Bonds (which assumes the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination, the allocation of the Transferred Program Loans to the Offered Bonds in an aggregate principal amount of approximately \$39,168,290 with an approximate weighted average maturity of 247 months, and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

<u>PAC Bonds Planned Amortization Schedules</u>		
<u>Date</u>	<u>Issue 2017-2A PAC Bonds Planned Amortization Amount</u>	<u>Issue 2017-2B PAC Bonds Planned Amortization Amount</u>
January 1, 2018	\$ 300,000	\$ 320,000
July 1, 2018	840,000	905,000
January 1, 2019	1,790,000	1,940,000
July 1, 2019	3,120,000	3,385,000
January 1, 2020	4,795,000	5,200,000
July 1, 2020	6,690,000	7,255,000
January 1, 2021	8,530,000	9,255,000
July 1, 2021	10,260,000	11,130,000
January 1, 2022	11,875,000	12,880,000
July 1, 2022	13,380,000	14,510,000
January 1, 2023	14,775,000	16,025,000
July 1, 2023	16,065,000	17,425,000
January 1, 2024	17,245,000	18,710,000
July 1, 2024	18,325,000	19,880,000
January 1, 2025	19,300,000	20,945,000
July 1, 2025	20,175,000	21,900,000
January 1, 2026	20,955,000	22,745,000
July 1, 2026	21,640,000	23,485,000
January 1, 2027	22,225,000	24,120,000
July 1, 2027	22,715,000	24,655,000
January 1, 2028	23,110,000	25,090,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the related PAC Bonds are redeemed from amounts on deposit in the Issue 2017-2 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds.”

Special Optional Redemption of the Offered Bonds, including Cross Calls The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading “DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds”; (ii) except as otherwise described under the headings “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and “ – Mandatory Redemption – 10 Year Rule”, repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, “Code”), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, (b) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bond to exceed the related Planned Amortization Amount shown above in the PAC Bonds Amortization Schedules and (c) shall be redeemed on a pro rata basis to the extent of any such special optional redemption. The Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph and, to the extent PAC Bonds are redeemed pursuant to any special optional redemption, the PAC Bonds shall be redeemed on a pro rata basis. See “ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments” and “ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices”.

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof allocable to the Offered Bonds shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the related Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedules only if there are no other Offered Bonds outstanding and if the PAC Bonds are to be redeemed pursuant to this paragraph, the PAC Bonds shall be redeemed on a pro rata basis.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans (or portions thereof) allocable to the Offered Bonds in accordance with the following approximate 10 year rule percentages to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Commencement Date</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
June 27, 2017	17.51 %
October 30, 2017	20.50
June 27, 2027	100.00 %

THDA will redeem the Offered Bonds in accordance with this schedule to the extent required to comply with the Code. THDA reserves the right to modify this schedule at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory redemption on April 1, 2018, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2017-2 Bonds Subaccount of the Loan Fund on March 1, 2018, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2017-2 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on December 1, 2020, to the extent any amounts remain on deposit in the Issue 2017-2 Bonds Subaccount of the Loan Fund on November 1, 2020.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding and, to the extent PAC Bonds are redeemed, the PAC Bonds shall be redeemed on a pro rata basis.

Selection By Lot

If less than all of the Issue 2017-2 Bonds of like series and maturity are to be redeemed, the particular Issue 2017-2 Bonds of such series and maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest

accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2017-2 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 175,000,000.00
Premium on Issue 2017-2A PAC Bond	1,943,551.00
Premium on Issue 2017-2B PAC Bond	2,260,358.10
Transferred Program Loans (approximate)	39,168,290.57
Transferred Investments (approximate)	1,402,454.69
TOTAL SOURCES	<u>\$ 219,774,654.36</u>

USES

Deposit to Loan Fund ⁽¹⁾	\$ 191,058,290.57
Redemption of Prior Bonds	23,110,000.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,300,000.00
Deposit to Bond Reserve Fund	2,981,104.85
Costs of Issuance	295,769.00
Underwriters' Fee	1,029,489.94
TOTAL USES	<u>\$ 219,774,654.36</u>

(1) Includes \$151,890,000.00 in proceeds from Issue 2017-2B plus approximately \$39,168,290.57 in Transferred Program Loans.

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumptions that (i) Transferred Program Loans in the aggregate principal amount of approximately \$39,168,290, with a weighted average maturity of approximately 247 months and a weighted average interest rate of approximately 5.76%, will be allocated to the Offered Bonds and (ii) THDA originates approximately \$151,890,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 4.61%. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2017-2 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA, including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" for descriptions of the various Program Loan products and Appendix G "RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES" for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2017-2B Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 4.61% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2017-2B Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2017-2B Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on April 17, 2017. As of May 8, 2017, THDA has committed a total principal amount of approximately \$23,256,490 of Program Loans, all of which are Great Choice Program Loans and Homeownership for the Brave Program Loans, that will be allocated to the Offered Bonds. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans". Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

In recent years a number of financial institutions and related entities have announced large losses as a result of their mortgage activities and the increasing number of defaults and foreclosures on such mortgages. The United States Congress has passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and may pass additional consumer protection and bankruptcy legislation, as a result of the adverse effects of the mortgage situation on individuals and families in the United States. Likewise, the Tennessee General Assembly may enact consumer protection legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA's single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA's activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA's single-family loans could adversely affect the THDA's ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D "2013 GENERAL RESOLUTION"), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans (including Transferred Program Loans) will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under

“DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” “- Special Optional Redemption of the Offered Bonds, including Cross Calls” and “- Mandatory Redemption – 10-Year Rule”.

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds.”

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA's general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA's current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA's determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D “2013 GENERAL RESOLUTION” for a description of Program Expenses. THDA expects to use funds on deposit in the Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters' fees, initial Trustee's fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see “THDA – THDA Funds”. THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum; and (iii) funds on deposit in the Issue 2017-2 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term “weighted average life” refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association (“PSA”)) prepayment standard or model (commonly referred to as the “PSA Prepayment Model”).

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, “0% PSA” assumes no prepayments of principal on the Program Loans. “25% PSA” assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. “50% PSA” assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. “75% PSA” assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. “100% PSA” assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. “200% PSA” assumes the principal of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. “300% PSA” assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “400% PSA” assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “500% PSA” assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors’ housing needs, job transfers, unemployment and mortgagors’ net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under “Changes in Federal or State Law” above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds”, and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2017-2 Bond Subaccount of the Loan Fund is applied to finance Program Loans, (ii) approximately \$39,168,290 of Transferred Program Loans with an approximate weighted average maturity of 247 months and an approximate weighted average interest rate of

5.76% will be allocated to the Offered Bonds, (iii) Excess 2017-2 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iv) the PAC Bonds will be redeemed only in the related Planned Amortization Amounts as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds” and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate. For certain information regarding Transferred Program Loans see “DESCRIPTION OF TRANSFERRED PROGRAM LOANS” herein.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>Issue 2017-2A PAC Bond Average Life (in years)</u>	<u>Issue 2017-2B PAC Bond Average Life (in years)</u>
0%	21.8	21.8
25	20.5	20.5
50	14.6	14.6
75	9.0	9.0
100	5.0	5.0
200	5.0	5.0
300	5.0	5.0
400	5.0	5.0
500	3.9	3.9

RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

THDA has issued \$1,374,205,000 total original principal amount of bonds under the General Resolution, of which \$1,153,580,000 (unaudited) were outstanding as of March 31, 2017, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of March 31, 2017 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$ 128,440,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	82,440,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	114,930,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	125,720,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	137,295,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	159,905,000	3.25
Issue 2016-1	May 18, 2016	125,000,000	120,450,000	2.68
Issue 2016-2	October 18, 2016	125,000,000	122,400,000	2.68
Issue 2016-3	November 17, 2016	62,000,000	62,000,000	2.97
Issue 2017-1	March 30, 2017	100,000,000	100,000,000	3.15
TOTAL		<u>\$ 1,374,205,000</u>	<u>\$ 1,153,580,000</u>	

(1) Bond yield.

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Origination Experience

THDA's experience from May 30, 2013, to March 31, 2017, regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

Issue of Bonds	Lendable Proceeds ⁽²⁾	Program Loans Financed ⁽³⁾ as of March 31, 2017		Weighted Average Interest Rate ⁽⁴⁾
		Amount	%	
Issue 2013-1	\$ 135,268,395	\$ 135,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	92,340,000	92,340,000	100.00	3.98
Issue 2016-2	91,685,000	91,685,000	100.00	3.87
Issue 2017-1	102,200,000	62,753,880	61.40	4.15
TOTAL	<u>\$ 997,293,875</u>	<u>\$ 957,847,596</u>		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included. All lendable proceeds with respect to the Issue 2017-1 Bonds were committed as of April 17, 2017.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on April 17, 2017, and as of May 8, 2017, THDA has committed a total principal amount of approximately \$23,256,490 of Program Loans that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. The THDA Household Income Limits range from \$56,100 to \$95,900 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2017-2 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple

estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance. While the Issue 2017-2 Supplemental Resolution provides that Program Loans, or participations therein, to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date, including the Transferred Program Loans, were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. Transferred Program Loans financed prior to September 30, 2013, are Great Rate, Great Advantage, Great Start or Homeownership for the Brave Program Loans. On and after October 1, 2013, the THDA primary loan program includes Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. On and after October 1, 2013, THDA provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 4.625%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans. From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans in a principal amount equal to 4% of the purchase price of the property purchased. From October 1, 2014, to September 30, 2016, Great Choice Plus Loans were 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, each Great Choice Plus loan will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

Since October 3, 2016, Great Choice Plus Loans are thirty year 0% interest rate second lien loans in a principal amount up to 5% of the purchase price of the property purchased. No monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. The full original principal amount will be forgiven at the end of the thirty year term.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA. THDA does not expect that Great Choice Plus loans will be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans,

such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans are serviced by the Federation of Appalachian Housing Enterprises, Inc., as of January 1, 2015. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. As of December 1, 2016, the maximum loan amount was increased to \$123,750 for Maury, Williamson, Davidson, Rutherford, Wilson and Sumner Counties. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable.

As of March 31, 2017 (unaudited), 109 New Start Program Loans, with an aggregate principal balance of approximately \$5,339,302, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction.

As of March 31, 2017 (unaudited), 221 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$24,511,328, were outstanding under the General Resolution. Eligible borrowers will also be eligible for Great Choice Plus loans. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became transferred program loans allocable to the Issue 2013-1 Bonds under the General Resolution.

As of March 31, 2017 (unaudited), 189 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$10,987,645, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers prior to October 1, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds. THDA also provided downpayment and closing cost assistance in the form of a grant in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made.

As of March 31, 2017 (unaudited), 2,622 Great Rate, 116 Great Advantage, and 1,818 Great Start Program Loans, with an aggregate principal balance of approximately \$382,243,239, were outstanding under the General Resolution.

Although Transferred Program Loans include Great Rate or Great Start Program Loans, THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of March 31, 2017 (unaudited), 12,152 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$1,155,767,174 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 306.91 months and an approximate weighted average interest rate of 4.46%.

Tables under this heading, "Residential Finance Program Portfolio Data", do not include data about Transferred Program Loans. For more information about Transferred Program Loans see "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS".

Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of March 31, 2017 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured.....	9,985	\$ 991,841,019	82.17%	85.82%
VA Guaranteed.....	252	22,822,651	2.07	1.97
Privately Insured.....	786	65,681,395	6.47	5.68
USDA/RD Guaranteed	734	50,885,160	6.04	4.40
Uninsured ⁽²⁾	385	24,536,948	3.25	2.12
TOTAL	12,152	\$1,155,767,174⁽⁴⁾	100.00%⁽⁴⁾	100.00%⁽⁴⁾

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution, either upon their direct transfer to the General Resolution or upon the refunding of other THDA obligations, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make

timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

As of March 31, 2017 (unaudited), 786⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$65,681,395 were outstanding under the General Resolution. As of March 31, 2017 (unaudited), THDA had the following information regarding the private mortgage insurers for 711 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance⁽³⁾</u>	<u>Percent of Total Number of Program Loans⁽³⁾</u>	<u>Percent of Total Outstanding Balance of Program Loans⁽³⁾</u>
Commonwealth/CMAC	3	\$ 81,215	0.02	0.01
Genworth Mortgage Insurance Corp. (GE)	287	25,325,355	2.36	2.19
MGIC	262	22,684,124	2.16	1.96
PMI Mortgage Insurance Co. ⁽²⁾	2	146,608	0.02	0.01
Radian Guaranty Inc.	6	333,889	0.05	0.03
Republic Mortgage Insurance Corporation	28	2,020,107	0.23	0.17
Triad Guaranty Insurance Corporation ⁽²⁾	7	469,991	0.06	0.04
United Guaranty Residential Insurance Co.	116	9,469,612	0.95	0.82
TOTAL	711	\$ 60,530,900⁽⁴⁾	5.85%⁽⁴⁾	5.24%⁽⁴⁾

(1) The private mortgage insurer is not identified with respect to 75 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA compiled data with respect to individual private mortgage insurance providers.

(2) Certain private mortgage insurance companies are under the oversight of their respective state insurance regulators and may pay claims at rates less than \$1.00 per \$1.00 of coverage.

(3) Rounded figures.

(4) Rounded total.

Program Loan Interest Rates

The following table summarizes, as of March 31, 2017 (unaudited), the interest rates of the outstanding Program Loans:

<u>Mortgage Rates (%)</u>	<u>Number of Program Loans⁽¹⁾</u>	<u>Outstanding Balance⁽²⁾</u>	<u>Percent of Total Number of Program Loans⁽²⁾</u>	<u>Percent of Total Outstanding Balance⁽²⁾</u>
0.00-2.99	170	\$ 7,928,161	1.40%	0.68%
3.00-3.99	3,863	459,628,143	31.79	39.77
4.00-4.49	3,209	379,152,595	26.41	32.81
4.50-4.99	622	47,129,751	5.12	4.08
5.00-5.49	1,140	91,310,927	9.38	7.90
5.50-5.99	1,582	94,189,034	13.02	8.15
6.00-6.49	438	33,870,076	3.60	2.93
6.50-6.99	609	29,521,308	5.01	2.55
7.00-7.49	226	6,661,458	1.86	0.58
7.50-7.99	209	4,443,296	1.72	0.38
8.00-8.99	79	1,871,072	0.65	0.16
9.00-12.00	5	61,353	0.04	0.00
TOTAL	12,152	\$1,155,767,174⁽³⁾	100.00%⁽³⁾	100.00%⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have passed with no payment received by the last business day of the month in which the second payment was due are

considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

The financial institutions who service Program Loans manage delinquencies by working with borrowers in an attempt to avoid defaults and by sending payment requests to borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

Delinquencies and Foreclosures as of March 31, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.09%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	114	\$10,187,275	1.14%	1.43% ⁽⁴⁾
VA Guaranteed	1	17,443	0.40	0.81
Privately Insured	7	613,914	0.89	0.50 ⁽⁵⁾
USDA/RD Guaranteed.....	8	587,777	1.09	(6)
Uninsured.....	<u>2</u>	<u>126,407</u>	0.51	(6)
TOTAL.....	<u>132</u>	<u>\$11,532,816⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.04%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	492	\$42,478,597	4.93%	2.31% ⁽⁴⁾
VA Guaranteed	19	1,183,231	7.54	1.49
Privately Insured	49	3,494,152	6.23	0.94 ⁽⁵⁾
USDA/RD Guaranteed.....	38	2,671,286	5.18	(6)
Uninsured.....	<u>14</u>	<u>798,014</u>	3.54	(6)
TOTAL.....	<u>612</u>	<u>\$50,625,281⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.74%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2016, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	77	\$7,804,398	0.77%	0.80% ⁽⁴⁾
VA Guaranteed	3	376,556	1.19	0.94
Privately Insured	5	483,014	0.64	0.36 ⁽⁵⁾
USDA/RD Guaranteed.....	5	376,443	0.68	(6)
Uninsured.....	<u>0</u>	<u>0.00</u>	0.00	(6)
TOTAL.....	<u>90</u>	<u>\$9,040,411⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS

General

As of March 31, 2017, the Transferred Program Loans have an approximate weighted average maturity of 250 months and a weighted average interest rate of 5.76% per annum. Average prepayment rate information for the Transferred Program Loans is discussed in “DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS – Prepayment Experience of Transferred Program Loans” below. It is anticipated that the characteristics of the pool of Transferred Program Loans will be substantially similar to the loans described below (such information below is as of March 31, 2017; the Transferred Program Loans will not be allocable to the Offered Bonds until June 27, 2017, and Transferred Program Loan characteristics may change from March 31, 2017, to June 27, 2017).

Transferred Program Loans by Loan Type

<u>Type of Mortgage</u>	<u>Number</u>	<u>Principal Amount⁽³⁾</u>	<u>% of Transferred Principal Amount</u>
FHA Insured.....	148	\$ 12,004,066	30.20%
VA Guaranteed.....	2	130,197	0.33
Privately Insured ⁽¹⁾	253	23,397,112	58.85
USDA/RD Guaranteed	40	2,986,283	7.51
Uninsured ⁽²⁾	19	1,237,054	3.11
TOTAL	462	\$ 39,754,713 ⁽⁴⁾	100.00%

(1) This includes Program Loans for which private mortgage insurance was in place at the time of the closing of the respective Program Loan.

(2) Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, and Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Transferred Program Loans

Each private mortgage insurer insuring conventional, privately insured THDA Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least ‘AA’ by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured THDA Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least ‘AA’ by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of March 31, 2017 (unaudited), 253⁽¹⁾ privately insured Transferred Program Loans having an aggregate principal balance of approximately \$23,397,112 were outstanding. As of March 31, 2017 (unaudited), THDA had the following information regarding the private mortgage insurers for 237 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Transferred Program Loans</u>	<u>Outstanding Balance⁽²⁾</u>	<u>Percent of Total Number of Transferred Program Loans⁽²⁾</u>	<u>Percent of Total Outstanding Balance of Transferred Program Loans⁽²⁾</u>
Genworth Mortgage Insurance Corp. (GE)	93	\$ 8,446,403	20.13	21.25
MGIC	85	7,836,118	18.40	19.71
Republic Mortgage Insurance Corporation	31	2,953,818	6.71	7.43
United Guaranty Residential Insurance Co.	28	2,516,571	6.06	6.33
TOTAL	237	\$ 21,752,911⁽³⁾	51.30 %⁽³⁾	54.72 %⁽³⁾

(1) The private mortgage insurer is not identified with respect to 16 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA compiled data with respect to individual private mortgage insurance providers.

(2) Rounded figures.

(3) Rounded total.

Prepayment Experience of Transferred Program Loans

The Transferred Program Loans are composed of mortgage loans originally allocable to the Prior Bonds. The table set forth below lists the actual average prepayment rate (principal only) experience as a percentage of the PSA Prepayment Model of the mortgage loans allocable to the Prior Bonds for the 3 month, 6 month and 12 month periods ended on March 31, 2017, based on principal prepayment data available to THDA.

<u>Issue</u>	<u>3 Months</u>	<u>6 Months</u>	<u>12 Months</u>	<u>Since Inception</u>	<u>Weighted Average Interest Rate</u>
2007-4	187%	269%	290%	228%	5.76%

Delinquency Information for the Transferred Program Loans

The overall delinquency rate for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.16%, based on a total of 462 Transferred Program Loans as of March 31, 2017 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending December 31, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2017

<u>Type of Mortgage</u>	<u>Transferred Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	7	\$697,731	4.73%	1.43% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.81
Privately Insured	2	170,012	0.79	0.50 ⁽⁵⁾
USDA/RD Guaranteed.....	1	78,902	2.50	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL.....	10	\$946,646⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate for the Transferred Program Loans that were ninety (90) days past due was 8.23%, based on a total of 462 Transferred Program Loans as of March 31, 2017 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were ninety (90) days past due as of March 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending December 31, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2017

<u>Type of Mortgage</u>	<u>Transferred Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	13	\$1,130,150	8.78%	2.31% ⁽⁴⁾
VA Guaranteed	0	0	0.00	1.49
Privately Insured	17	1,566,204	6.72	0.94 ⁽⁵⁾
USDA/RD Guaranteed.....	7	392,660	17.50	(6)
Uninsured.....	<u>1</u>	<u>18,469</u>	5.26	(6)
TOTAL.....	<u>38</u>	<u>3,107,482⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The rate of Transferred Program Loans in foreclosure was 1.52%, based on a total of 462 Transferred Program Loans as of March 31, 2017 (unaudited).

The foreclosure rate by loan type for the Transferred Program Loans in foreclosure as of March 31, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA, by loan type, for the quarter ending December 31, 2016, are shown in the following table:

IN FORECLOSURE AS OF MARCH 31, 2017

<u>Type of Mortgage</u>	<u>Transferred Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	4	\$333,073	2.70%	0.80% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.94
Privately Insured	3	240,345	1.19	0.36 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	(6)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(6)
TOTAL.....	<u>7</u>	<u>\$573,418⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the four most recent years and for the six months ended December 31, 2016, and December 31, 2015. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2016, 2015, 2014, and 2013, and from unaudited financial information of THDA for the six months ended December 31, 2016, and December 31, 2015.

	Six Months Ended December 31 (Unaudited)		Year Ended June 30 (Audited)			
Residential Finance Bond Group	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES:						
Interest on Mortgages	\$ 22,892	\$ 17,481	\$ 36,426	\$ 25,393	\$ 13,518	\$ 222
Investment Income:						
Interest	718	1,031	2,011	1,866	335	10
Net Increase (decrease) in the Fair Value of Investments	(931)	(269)	(320)	(552)	(146)	(83)
Fees and Other Income	834	645	953	160	-	76
	<u>23,513</u>	<u>18,888</u>	<u>39,070</u>	<u>26,867</u>	<u>13,707</u>	<u>225</u>
EXPENSES:						
Interest	14,649	11,506	24,876	17,058	9,087	551
Issuance Cost	1,472	1,303	2,311	2,343	2,167	1,679
Mortgage Servicing Fees	1,785	1,379	2,967	2,048	980	18
Other	512	655	1,157	1,001	239	1
	<u>18,418</u>	<u>14,843</u>	<u>31,311</u>	<u>22,450</u>	<u>12,473</u>	<u>2,249</u>
Excess of Revenues over Expenses	5,095	4,045	7,759	4,417	1,234	(2,024)
Net Position at beginning of period	116,295	101,055	101,055	105,707	(68,279)	-
Other Transfers	9,324	(6,777)	7,481	(9,069)	172,752	(66,255)
Net Position at end of period	<u>\$ 130,714</u>	<u>\$ 98,323</u>	<u>\$ 116,295</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>	<u>\$ (68,279) ⁽¹⁾</u>

⁽¹⁾ On May 30, 2013 THDA issued its Issue 2013-1 Bonds under the General Resolution. Proceeds of the Issue 2013-1 Bonds in an aggregate principal amount of \$75,905,000 were applied to the refunding of THDA's Issue 2003-A Bonds under the 1974 General Resolution and THDA's Issue 2004-1 Bonds under the 1985 General Resolution. While the Issue 2013-1 Bonds were issued on May 30, 2013, the assets allocable to the Issue 2003-A and the Issue 2004-1 Bonds in an aggregate amount of approximately \$99,855,200 did not transfer to the General Resolution until July 1, 2013, the date of the redemption of such bonds. As a result of such transfer, the net position of the General Resolution as of July 1, 2013, was approximately \$31,576,000 (unaudited).

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of March 31, 2017 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 18,968,400	\$ 41,135,997
Federal Home Loan Mortgage Corporation Notes	2,319,596	13,783,083
Fannie Mae Notes	16,966,475	23,267,326
Financing Corporation Bonds	0	2,469,347
TOTAL.....	<u>\$ 38,254,471</u>	<u>\$ 80,655,753</u>

As of March 31, 2017 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 0	\$ 18,961,058
Federal Home Loan Mortgage Corporation Notes	1,320,302	5,780,200
Fannie Mae Notes	0	11,563,878
TOTAL.....	<u>\$ 1,320,302</u>	<u>\$ 36,305,136</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2018.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of March 31, 2017 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$1,828,780,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors⁽¹⁾ are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Brian Bills, Chairman	June 30, 2017	Sr. Vice President, Residential Mortgage Lending SunTrust Mortgage, Inc., Knoxville, TN
Kim Grant Brown	June 30, 2019	Owner, Grant & Company Collierville, TN
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Tre Hargett ⁽²⁾	January, 2021	Secretary of State
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
Ronald K. Jones	June 30, 2020	Executive Director, Trevecca Towers Nashville
David H. Lillard, Jr. ⁽²⁾	January, 2019	State Treasurer
Larry Martin ⁽²⁾	(3)	Commissioner, Department of Finance and Administration
Austin McMullen	June 30, 2019	Member, Bradley Arant Boult Cummings LLP Nashville
Todd Skelton ⁽²⁾	(3)	Deputy Counsel to the Governor
Pieter J. van Vuuren	June 30, 2019	President & CEO, First National Bank of McMinnville McMinnville, TN
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Justin Wilson ⁽²⁾	January, 2019	Comptroller of the Treasury
Daisy Fields	(4)	Gallatin, TN

(1) One Board of Directors position appointed by the Governor is currently vacant.

(2) Ex officio member.

(3) Serves at pleasure of the Governor.

(4) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 229 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Servicing since 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Administrative Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010).

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Conners & Berry (currently Bradley Arant Boulton Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999); Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the "State") amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

As of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ending June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees.

The TCRS covers three large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 58,683 active members in TCRS in the state and higher education employee group at June 30, 2016. This total includes 229 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age 60 or 30 years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute at 5% of salary to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age 65 or the rule of 90 (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan, requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute to TCRS 15.03% of salary for the period July 1, 2014 through June 30, 2016, based on the July 1, 2013 actuarial valuation. The June 30, 2015 actuarial valuation established the employer contribution rate of 15.02% that is applicable for the period July 1, 2016 through June 30, 2017. The recently completed June 30, 2016 actuarial valuation will establish employer contribution rates for the period July 1, 2017 through June 30, 2018. General state employees do not contribute to this plan.

An actuarial valuation was performed as of June 30, 2016 to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2016 (measurement date of June 30, 2015), the net pension liability for the state and higher education employee group based on the market value of assets was \$1.3 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 91.26%.

Actuarial Data for Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, the overall 4% employer contribution rate to TCRS for the period July 1, 2014 through June 30, 2016, consists of 3.87% for general employees, with the employer rate for judicial and public safety employees being higher at 7.00% and 4.62%, respectively. The employer contribution rate for general employees of 3.87% consists of 2.00% for the ADC and 1.87% for the stabilization reserve.

An actuarial valuation at June 30, 2015 established that the employer overall rate will remain at the minimum statutory level of 4%. For the period July 1, 2016 through June 30, 2017, the employer rate for general employees will be 3.94% while the employer rate for judicial and public safety employees will be 6.27% and 4.69%, respectively. The employer contribution rate for general employees of 3.94% consists of 1.13% for the ADC and 2.81% for the stabilization reserve.

THDA Employer Contributions to TCRS

For THDA, the employer contribution rate for employees hired before July 1, 2014, stated as a percentage of salary, is as follows: 15.03% for the period beginning July 1, 2014 through June 30, 2016 and 15.02% for the period beginning July 1, 2016 through June 30, 2017. For employees first hired after June 30, 2014, the employer rate is 8.87% for fiscal year ending June 30, 2016 and 8.94% for fiscal year ending June 30, 2017 (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions to TCRS are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	Percentage of THDA Budget
2017 ⁽¹⁾	15.02/9% ⁽²⁾	\$16,398,800 ⁽¹⁾⁽³⁾	\$2,340,940	2.03%
2016	15.03/9 ⁽²⁾	11,965,554	1,581,407	1.30
2015	15.03/9 ⁽²⁾	11,569,902	1,673,881	1.19
2014	15.03/9 ⁽²⁾	11,721,300	1,761,711	1.19
2013	15.03	11,315,872	1,692,847	1.26
2012	14.91	11,005,204	1,632,095	1.36
2011	14.91	10,593,944	1,585,654	1.25
2010	13.02	9,956,646	1,295,272	1.03
2009	13.02	9,267,262	1,201,303	0.98
2008	13.66	9,602,067	1,297,298	1.02

(1) Estimated

(2) Varies depending on plan the employee is enrolled in.

(3) The increase in "Total Salary of THDA Employees" from the actual amount for the fiscal year ending June 30, 2016, to the estimated amount for the fiscal year ending June 30, 2017, is due to the additional salaries for approximately thirty-eight (38) positions THDA expects to fill in connection with the servicing activities THDA expects to undertake later in 2017.

For the fiscal year ending June 30, 2016, the salary of THDA employees totaled \$11,965,554, which represents 0.45% of the \$2.677 billion of salary for all state and higher education employees in TCRS.

It is anticipated that there will be upward pressure on the employer contribution rate in the Closed State and Higher Education Employee Pension Plan in future actuarial valuations as deferred investment losses that have been actuarially smoothed are recognized over the next ten years as well as a continuing low earnings environment.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

General Information about the 401(k) and 457 Defined Contribution Plans

The state provides additional voluntary defined contribution plans to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Employee contribution limits to the 401(k) and 457 plans are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

For the fiscal year ended June 30, 2016, 173 THDA employees made contributions to the 401(k) plan and 10 THDA employees made contributions to the 457 plan. THDA made employer contributions to the 401(k) plan that totaled \$86,335 while THDA employees contributed a total of \$243,815 to the 401(k) plan and the 457 plan.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 43 and 45) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2015, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used a projected unit credit actuarial cost method, indicates that for the fiscal year ended June 30, 2016, the total unfunded actuarial liability of THDA is approximately \$2,923,000 and the annual required contribution for THDA is approximately \$341,000. The annual required contribution consists of the normal cost (the portion of the actuarial present value of OPEB benefits which is allocated to a valuation year by the actuarial cost method) and an amortization of the unfunded actuarial liability. The report may be reviewed at <http://www.tennessee.gov/finance/act/OPEB.html>. The State is not currently funding any actuarially determined OPEB liability, and will continue to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for the fiscal year. The State will charge THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that (i) interest on the Issue 2017-2A Bonds will be treated as a preference item for purposes of calculating the alternative minimum tax imposed on individuals and corporations and (ii) interest on the Issue 2017-2B Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a "Premium Bond") over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

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

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, THDA, in the Issue 2017-2 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2017-2 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MRSB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2017-2 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a

change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2017-2 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2017-2 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2017-2 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MSRB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2016, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the six months ended December 31, 2016. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

Citigroup Global Markets Inc., RBC Capital Markets, LLC, Raymond James & Associates, Inc., FTN Financial Capital Markets, J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and Wiley Bros.—Aintree Capital, LLC (collectively, the “Underwriters”) have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$1,029,489.94. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

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

Citigroup Global Markets Inc. (“Citigroup”), one of the underwriters of the Offered Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. (“UBSFS”). Under these distribution agreements, Citigroup may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup may compensate UBSFS for their selling efforts with respect to the Offered Bonds.

FTN Financial Capital Markets is a division of First Tennessee Bank National Association and FTB Advisors, Inc. is a wholly-owned subsidiary of First Tennessee Bank National Association. FTN Financial Capital Markets has entered into a distribution agreement with FTB Advisors, Inc. for the distribution of the Offered Bonds at the original issue prices. Such arrangement generally provides that FTN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with FTB Advisors, Inc.

J.P. Morgan Securities LLC (“JPMS”), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

Wells Fargo Bank, National Association, acting through its Municipal Products Group (“WFBNA”), one of the underwriters of the Offered Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Offered Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Offered Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Offered Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show

recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Brian Bills

Chairman

/s/ Ralph M. Perrey

Executive Director



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

APPENDIX A

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and the other postemployment benefits schedule of funding progress, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA
Director
December 19, 2016

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2016, with comparative information presented for the fiscal year ended June 30, 2015. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2016, THDA has originated over 115,000 single-family mortgage loans in its 43-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

More recently, THDA has administered programs under the American Recovery and Reinvestment Act of 2009 (ARRA), including the Homeless Prevention and Rapid Re-Housing Program (HPRP), the Tax Credit Assistance Program (TCAP), the Neighborhood Stabilization Program (NSP), and a Low Income Housing Tax Credit exchange program under Section 1602 of the Act.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated 13-23-105*). This board meets regularly on a bi-monthly basis; however, some committees may meet more often as situations dictate.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discretely presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <http://www.tn.gov/finance/article/fa-accfin-cafr>

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2016

- Total assets decreased by \$90.1 million, or 3.5%.
- Deferred outflows of resources increased \$0.5 million, or 18.4%.
- Total liabilities decreased by \$83.1 million, or 4.1%.
- Net position was \$510.9 million. This is a decrease of \$3.4 million, or 0.7%, from fiscal year 2015.
- Cash and cash equivalents decreased by \$69.3 million, or 23.0%.
- Total investments increased by \$18.4 Million, or 7.2%.
- Bonds payable decreased by \$72.7 million, or 3.67%.
- Deferred inflows of resources decreased \$3.0 million, which was related to pensions.
- THDA originated \$293.4 million in new loans, which is an increase of \$42.7 million, or 17.03%, from the prior year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

FINANCIAL ANALYSIS OF THE AGENCY

Net Position. The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	<u>2016</u>	<u>2015</u>
Current assets	\$ 393,675	\$ 442,792
Capital assets	1,175	512
Other noncurrent assets	<u>2,081,560</u>	<u>2,123,193</u>
Total assets	<u>2,476,410</u>	<u>2,566,497</u>
Deferred outflows of resources	<u>3,142</u>	<u>2,653</u>
Current liabilities	149,798	191,375
Noncurrent liabilities	<u>1,817,534</u>	<u>1,859,097</u>
Total liabilities	<u>1,967,332</u>	<u>2,050,472</u>
Deferred inflows of resources	<u>1,288</u>	<u>4,271</u>
Invested in capital assets	1,175	512
Restricted net position	430,114	441,196
Unrestricted net position	<u>79,643</u>	<u>72,699</u>
Total net position	<u><u>\$ 510,932</u></u>	<u><u>\$ 514,407</u></u>

2016 to 2015

- THDA's total net position decreased by \$3.4 million because operating income was less than the amount by which nonoperating expenses exceeded nonoperating revenues.
- First and Second mortgage loans (net of allowance for forgivable second mortgages) receivable decreased by \$10.8 million. During FY 2016, single-family mortgage loan originations increased by \$42.7 million, whereas mortgage loan payoffs increased by \$27.4 million and mortgage loan repayments decreased \$2.8 million. In addition, THDA recognized an allowance for future forgiveness of forgivable second mortgages of \$4.9 million for FY 2016.
- Total liabilities decreased \$83.1 million. The decrease is primarily due to a \$72.7 million decrease of bonds payable at June 30, 2016 as compared to June 30, 2015.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

Changes in Net Position. The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	<u>2016</u>	<u>2015</u>
Operating revenues		
Mortgage interest income	\$ 90,235	\$ 96,999
Investment income	5,872	6,535
Other	17,052	16,512
Total operating revenues	<u>113,159</u>	<u>120,046</u>
Operating expenses		
Interest expense	62,045	66,389
Other	41,916	43,932
Total operating expenses	<u>103,961</u>	<u>110,321</u>
Operating income	<u>9,198</u>	<u>9,725</u>
Nonoperating revenues (expenses)		
Grant revenues	269,226	307,012
Grant expenses	(281,899)	(322,465)
Total nonoperating revenues (expenses)	<u>(12,673)</u>	<u>(15,453)</u>
Change in net position	<u>\$ (3,475)</u>	<u>\$ (5,728)</u>

2016 to 2015

Total operating revenues decreased \$6.9 million, primarily due to a decrease in mortgage interest income of \$6.8 million. This is due to new mortgage loan originations having lower interest rates than those associated with mortgage loan repayments.

Total operating expenses decreased \$6.3 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

DEBT ACTIVITY

Bonds outstanding at June 30 were as follows (expressed in thousands):

	<u>2016</u>	<u>2015</u>
Bonds payable	\$1,906,494	\$ 1,979,170

Year Ended June 30, 2016

Total bonds and notes payable decreased \$72.7 million, due primarily to an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling \$306.9 million, with activity arising from two bond issues.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$67.1 million of outstanding bonds into new bond originations with lower interest rates.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard & Poor's Ratings Services (S&P), a division of the The McGraw-Hill Companies, Inc. has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during FY 2016 or FY 2015.

Debt Limits

In accordance with *Tennessee Code Annotated*, 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

GRANT PROGRAMS

During FY 2007 through FY 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors allocated additional THDA funds for grants. These funds established a grant program that was titled by the THDA as the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

	FY 2016	FY 2015	FY 2014 and Prior	Total
<i>Funding Sources:</i>				
THDA	\$ 7,500,000	\$ 7,500,000	\$ 52,300,000	\$ 67,300,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	\$ 7,500,000	\$ 7,500,000	\$ 56,650,000	\$ 71,650,000
<i>Approved Uses:</i>				
Rural repair program (USDA)	\$ -	\$ 700,000	\$ 5,600,000	\$ 6,300,000
Ramp Programs & Hsg Modification	-	150,000	1,200,000	1,350,000
Emergency Repairs	2,700,000	1,800,000	14,000,000	18,500,000
Competitive Grants	2,800,000	2,850,000	31,950,000	37,600,000
Rebuild & Recover	500,000	500,000	2,300,000	3,300,000
Other Grants	1,500,000	1,500,000	1,600,000	4,600,000
Totals	\$ 7,500,000	\$ 7,500,000	\$ 56,650,000	\$ 71,650,000

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the *Great Choice* and the *Great Choice Plus* loan programs were introduced and the *Great Rate*, *Great Advantage* and *Great Start* loan programs were eliminated. The *Great Choice* loan program offers THDA the opportunity to offer a more competitive interest rate on its 30 year fixed rate mortgage product while still offering down payment assistance with the addition of the *Great Choice Plus* loan program which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the *Great Choice Plus* loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15.

A special interest rate reduction on *Great Choice* loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as "*Homeownership for the Brave*", provides a 0.5% rate reduction on the current interest rate for *Great Choice* loans. In addition to the rate reduction, "*Homeownership for the Brave*" applicants are eligible for optional down payment and closing cost assistance through the *Great Choice Plus* second mortgage loan at a 0% interest rate.

All loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages (ARMs), interest-only mortgages, "buy-down" loans, mortgages with a future lump-sum payment due (balloon-type mortgage), or with other similar mortgage terms. THDA does not make or purchase "sub-prime" mortgage loans.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers, who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor's Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at <https://thda.org/homebuyers/homebuyers>

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2016, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

<u>Loan Status</u>	<u>Total Number of Loans Serviced</u>	<u>Number of Loans in Status</u>	<u>Principal Amount</u>	<u>Percentage</u>
60-89 Days Past Due	23,492	508	\$ 39,830,107	2.16%
90+ Days Past Due	23,492	1,503	116,348,733	6.40%
In Foreclosure	23,492	148	12,307,322	0.63%

Note: Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

ECONOMIC FACTORS

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, THDA uses the one-, three-, and five-year Constant Maturity Treasury (CMT) rates as established by the United States Treasury.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

The continuation of relatively low interest rates from a historic perspective increased the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Trent Ridley, Chief Financial Officer at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2016
(Expressed in Thousands)

ASSETS

Current assets:		
Cash and cash equivalents (Note 2)	\$	218,023
Investments (Note 2)		74,211
Receivables:		
Accounts		4,060
Interest		11,944
First mortgage loans		59,075
Due from federal government		26,361
Prepaid expenses		<u>1</u>
Total current assets		<u>393,675</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		13,647
Investments (Note 2)		157,864
Investment interest receivable		1,326
Investments (Note 2)		42,653
First mortgage loans receivable		1,849,432
Second mortgage loans receivable		21,326
Allowance for forgivable second mortgages		(7,808)
Advance to local government		3,107
Net pension asset (Note 6)		13
Capital assets:		
Furniture and equipment		2,631
Less accumulated depreciation		<u>(1,456)</u>
Total noncurrent assets		<u>2,082,735</u>
Total assets		<u>2,476,410</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refundings		981
Deferred outflows related to pensions (Note 6)		<u>2,161</u>
Total deferred outflows of resources		<u>3,142</u>

LIABILITIES

Current liabilities:		
Accounts payable		9,235
Accrued payroll and related liabilities		585
Compensated absences		633
Due to primary government		72
Interest payable		32,300
Escrow deposits		89
Prepayments on mortgage loans		1,161
Due to federal government		1,679
Bonds payable (Note 4)		100,360
Arbitrage rebate payable		<u>3,684</u>
Total current liabilities		<u>149,798</u>
Noncurrent liabilities:		
Bonds payable (Note 4)		1,806,134
Compensated absences		611
Net pension liability (Note 6)		5,429
Net OPEB obligation (Note 10)		1,602
Escrow deposits		3,348
Arbitrage rebate payable		<u>410</u>
Total noncurrent liabilities		<u>1,817,534</u>
Total liabilities		<u>1,967,332</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 6)		<u>1,288</u>
Total deferred inflows of resources		<u>1,288</u>

NET POSITION

Net investment in capital assets		1,175
Restricted for single family bond programs (Note 5 and Note 8)		417,331
Restricted for grant programs (Note 5)		9,617
Restricted for Homebuyers Revolving Loan Program (Note 5)		3,153
Restricted for net pension asset (Note 6)		13
Unrestricted (Note 8)		<u>79,643</u>
Total net position	\$	<u>510,932</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

OPERATING REVENUES

Mortgage interest income	\$ 90,235
Investment income:	
Interest	9,714
Net (decrease) in the fair value of investments	(3,842)
Federal grant administration fees	13,346
Fees and other income	3,706
Total operating revenues	<u>113,159</u>

OPERATING EXPENSES

Salaries and benefits	15,845
Contractual services	4,989
Materials and supplies	1,233
Rentals and insurance	18
Other administrative expenses	571
Other program expenses	9,683
Interest expense	62,045
Mortgage service fees	6,755
Issuance costs	2,311
Depreciation	511
Total operating expenses	<u>103,961</u>
Operating income	<u>9,198</u>

NONOPERATING REVENUES (EXPENSES)

Federal grants revenue	269,217
Other grants revenue	9
Federal grants expenses	(269,057)
Local grants expenses	(12,842)
Total nonoperating revenues (expenses)	<u>(12,673)</u>
Change in net position	<u>(3,475)</u>
Total net position, July 1	<u>514,407</u>
Total net position, June 30	<u>\$ 510,932</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 417,586
Receipts from federal government	12,862
Other miscellaneous receipts	3,706
Acquisition of mortgage loans	(293,475)
Payments to service mortgages	(6,755)
Payments to suppliers	(8,204)
Payments to or for employees	<u>(17,046)</u>
Net cash provided by operating activities	<u>108,674</u>
Cash flows from non-capital financing activities:	
Operating grants received	258,411
Proceeds from sale of bonds	306,902
Operating grants paid	(285,892)
Cost of issuance paid	(2,311)
Principal payments	(373,350)
Interest paid	<u>(68,299)</u>
Net cash used by non-capital financing activities	<u>(164,539)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(1,174)</u>
Net cash used by capital and related financing activities	<u>(1,174)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	332,627
Purchases of investments	(355,001)
Investment interest received	10,008
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	<u>87</u>
Net cash used by investing activities	<u>(12,279)</u>
Net decrease in cash and cash equivalents	(69,318)
Cash and cash equivalents, July 1	<u>300,988</u>
Cash and cash equivalents, June 30	\$ <u><u>231,670</u></u>

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ <u>9,198</u>
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Depreciation	511
Pension expense	566
Changes in assets and liabilities:	
Decrease in accounts receivable	25,537
Decrease in mortgage interest receivable	1,567
(Increase) in deferred pension outflows	(1,586)
Decrease in mortgage loans receivable	10,795
(Increase) in due from federal government	(484)
Increase in accounts payable	2,673
Increase in accrued payroll /	
compensated absences	121
Increase in due to primary government	1
Increase in arbitrage rebate liability	1,291
Investment income (loss) included as operating revenue	(5,872)
Interest expense included as operating expense	62,045
Issuance cost included as operating expense	<u>2,311</u>
Total adjustments	<u>99,476</u>
Net cash provided by operating activities	\$ <u><u>108,674</u></u>
Noncash investing, capital, and financing activities:	
Increase in fair value of investments	\$ <u>68</u>
Total noncash investing, capital, and financing activities	\$ <u><u>68</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cashflows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

d. Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, and Net Pension Assets (see note 6).

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

f. Deferred Amount on Refundings and Bond Premiums and Discounts

1. Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.
2. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

g. Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

h. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

i. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

j. Mortgages

Mortgages are carried at their original amount less collected principal.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

k. Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

l. Allowance for Forgivable Second Mortgages

THDA has offered Down Payment Assistance (DPA) product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage, loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period.

m. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2016, the bank balance was \$3,921,135.08. All bank balances at June 30, 2016, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2016, \$3,307,357.87 was in the BNYM. Of this amount, \$3,057,357.87 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

b. Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Investment Type	June 30, 2016	
	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$131,326,153	0.804
U.S. Treasury Coupon	68,451,345	0.143
U.S. Agency Discount	152,930,920	1.626
Total	<u>\$352,708,418</u>	0.731

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Fair Value Measurements THDA implemented GASB Statement 72 *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2016:

	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets by Fair Value Level	<i>(Thousands)</i>			
Debt securities				
U.S. Agency Coupon	\$131,326	\$-0-	\$131,326	\$-0-
U.S. Treasury Coupon	68,451	68,451	-0-	-0-
U.S. Agency Discount	152,931	-0-	152,931	-0-
Total debt securities	\$352,708	\$68,451	\$284,257	\$-0-

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets as those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets as those securities. Level 3 valuations are derived from valuation techniques in which significant inputs are unobservable.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Credit Risk Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2016, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

June 30, 2016					
Investment Type	Fair Value	U.S. Treasury ¹	AAA	AA+	Not Rated ²
U.S. Agency Coupon	\$131,326,153		\$2,615,164	128,710,989	
U.S. Treasury Coupon	68,451,345	\$68,451,345			
U.S. Agency Discount	152,930,920				152,930,920
Total	\$352,708,418	\$68,451,345	\$2,615,164	\$128,710,989	\$152,930,920

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

Issuer	June 30, 2016	
	<u>Fair Value</u> <u>(Thousands)</u>	<u>% of</u> <u>Portfolio</u>
Federal Home Loan Bank	\$180,760	51.25
Federal Home Loan Mortgage Corp	\$41,153	11.67
Federal National Mortgage Assoc.	\$59,729	16.93

New GASB 79 Disclosures During fiscal year 2016, Tennessee Housing Development Agency implemented *GASB Statement 79, Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that the Tennessee Housing Development Agency to participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of \$5 million or more.

¹This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

²This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 3. ACCOUNTING CHANGE

During fiscal year 2016, Tennessee Housing Development Agency modified the presentation of certain mortgage loans. Prior to fiscal year 2016, mortgage loans in which a foreclosure sale had occurred was reported as a component of Accounts Receivable. Beginning in fiscal year 2016, mortgage loans in which a foreclosure sale has occurred will be reported as Current Portion, First Mortgage Loans receivable.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING				
<i>(Thousands)</i>				
<i>Series</i>	<i>Maturity Range</i>	<i>Issued Amount</i>	<i>Interest Rate (Percent)</i>	<i>Ending Balance 6/30/2016</i>
HOMEOWNERSHIP PROGRAM BONDS				
2006-3	1/1/2008-7/1/2037	\$100,000	3.65 to 5.75	\$24,060
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	28,240
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	34,320
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	39,295
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	43,930
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	17,090
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	1,270
2009-1	1/1/2010-7/1/2029	50,000	0.75 to 5.00	21,330
2009-2	7/1/2010-7/1/2030	75,000	0.90 to 5.00	29,770
2010-1	1/1/2011-7/1/2025	120,700	0.35 to 4.50	53,775
2011-1	7/1/2012-7/1/2042	141,255	0.60 to 4.65	85,930
2012-1	1/1/2013-7/1/2042	133,110	0.80 to 4.50	85,660
2012-2	7/1/2013-7/1/2043	97,625	0.50 to 4.00	68,845
Total Homeownership Program Bonds		<u>\$1,387,690</u>		\$533,515
Plus: Unamortized Bond Premiums				4,444
Less: Unamortized Bond Discount				(42)
Net Homeownership Program Bonds				<u>\$537,917</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2016</u>
HOUSING FINANCE PROGRAM BONDS				
2009-A	1/1/2011-1/1/2040	\$100,000	0.90 to 4.625	\$14,725
2010-A	1/1/2011-7/1/2041	160,000	0.60 to 5.00	23,170
2010-B	7/1/2011-7/1/2041	100,000	0.45 to 4.50	60,835
2011-A	7/1/2011-7/1/2041	100,000	0.45 to 4.50	17,835
2011-B	7/1/2012-7/1/2041	100,000	0.25 to 4.50	64,995
2011-C	7/1/2012-7/1/2041	100,000	0.40 to 4.30	64,395
2015-A	1/1/2016-7/1/2045	150,000	0.30 to 3.85	143,050
Total Housing Finance Program Bonds		<u>\$810,000</u>		\$389,005
Plus: Unamortized Bond Premiums				4,409
Net Housing Finance Program Bonds				<u>\$393,414</u>

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2016</u>
RESIDENTIAL FINANCE PROGRAM BONDS				
2013-1	1/1/2014-7/1/2043	\$215,905	0.40 to 4.00	\$148,735
2013-2	7/1/2014-7/1/2043	121,300	0.45 to 4.65	94,435
2014-1	1/1/2015-7/1/2039	150,000	0.32 to 4.00	129,860
2014-2	7/1/2015-7-1-2045	150,000	0.25 to 4.00	135,780
2015-1	1/1/2016-7/1/2045	150,000	0.50 to 4.05	144,290
2015-2	7/1/2016-1/1/2046	175,000	0.40 to 4.00	175,000
2016-1	1/1/2017-1/1/2047	125,000	0.625 to 3.50	125,000
Total Residential Finance Program Bonds		<u>\$1,087,205</u>		\$953,100
Plus: Unamortized Bond Premiums				22,063
Net Residential Finance Program Bonds				<u>\$975,163</u>
Net Total All Issues				<u>\$1,906,494</u>

Housing Finance Program Bonds The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2016, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2017	\$36,555	\$65,913	\$102,468
2018	62,810	65,922	128,732
2019	65,295	64,018	129,313
2020	66,785	61,979	128,764
2021	71,065	59,768	130,833
2022 – 2026	369,900	260,532	630,432
2027 – 2031	343,540	194,038	537,578
2032 – 2036	367,480	125,252	492,732
2037 – 2041	325,135	60,915	386,050
2042 - 2046	167,055	13,778	180,833
Total	<u>\$1,875,620</u>	<u>\$972,115</u>	<u>\$2,847,735</u>

c. Redemption of Bonds and Notes

During the year ended June 30, 2016, bonds were retired at par before maturity in the Homeownership Program in the amount of \$70,935,000, in the Housing Finance Program in the amount of \$84,975,000, and in the Residential Finance Program in the amount of \$26,440,000. The respective carrying values of the bonds were \$71,940,410,

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

\$85,625,000 and \$27,205,277. This resulted in revenue to the Homeownership Program of \$1,005,410 to the Housing Finance Program of \$650,069, and to the Residential Finance Program of \$765,277.

On June 11, 2016, the agency issued \$150,000,000 in Residential Finance Program Bonds, Issue 2015-1. On January 1, 2016, the agency used \$27,395,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$27,395,000 early redemption). The carrying amount of these bonds was \$27,395,000. The refunding reduced the agency's debt service by \$12,273,421 over the next 20.0 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$4,089,664.

On October 15, 2015, the agency issued \$175,000,000 in Residential Finance Program Bonds, Issue 2015-2. On January 1, 2016, the agency used \$43,070,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$43,070,000 early redemption). The carrying amount of these bonds was \$43,184,624. The refunding reduced the agency's debt service by \$17,407,979 over the next 20.0 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$5,246,191.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2016.

Long-term Liabilities					
(Thousands)					
	Beginning Balance July 1, 2015	Additions	Reductions	Ending Balance June 30, 2016	Amounts Due Within One Year³
Bonds Payable	\$1,948,970	\$300,000	(\$373,350)	\$1,875,620	\$100,360
Plus: Unamortized Bond Premiums	30,333	6,897	(6,314)	30,916	-0-
Less: Unamortized Bond Discounts	(133)	-0-	91	(42)	-0-
Compensated Absences	1,207	129	(92)	1,244	633
Net Pension Liability	2,964	4,176	(1,711)	5,429	-0-
Escrow Deposits	2,553	2,322	(1,438)	3,437	89
Arbitrage Rebate Payable	2,803	1,291	(-0-)	4,094	3,684
Total	\$1,988,697	\$314,815	(\$382,814)	\$1,920,698	\$104,766

³Amounts due within one year include management authorized bond refundings at June 30.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 5. RESTRICTED NET POSITION

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

NOTE 6. PENSION PLANS

a. Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided Title 8, Chapters 34-37, *Tennessee Code Annotated* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%

Plus:

Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Tennessee Housing Development Agency employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education

**TENNESSEE HOUSING DEVELOPMENT AGENCY
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Employee Pension Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2016 to the Closed State and Higher Education Employee Pension Plan were \$1,539,003 which is 15.03 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability At June 30, 2016, Tennessee Housing Development Agency reported a liability of \$5,428,475 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension liability was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2015 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015 measurement date, Tennessee Housing Development Agency's proportion was 0.421046 percent. The proportion measured as of June 30, 2014 was 0.429581

Pension expense For the year ended June 30, 2016, Tennessee Housing Development Agency recognized a pension expense of \$554,977. Allocated pension expense was \$583,722 before being reduced by \$28,745 due to a change in proportionate share.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2016, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 574,421	\$ 470,017
Net difference between projected and actual earnings on pension plan investments	—	697,846
Changes in proportion	—	114,978
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2015	1,539,003	—
Total	<u>\$ 2,113,424</u>	<u>\$ 1,282,841</u>

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of \$1,539,003 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2017	\$ (438,708.49)
2018	(438,708.49)
2019	(438,708.49)
2020	607,705.99
2021	-
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Actuarial assumptions The total pension liability as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	\$ 12,719,744	\$ 5,428,475	\$ (716,661)

Pension plan fiduciary net position Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2016, Tennessee Housing Development Agency reported a payable of \$128,363 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2016.

b. State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014 and covers employees hired before July 1, 2014. Employees hired after June 30, 2014 are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Benefits provided Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation by 1.0 percent multiplied by member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2016 to the State and Higher Education Employee Retirement Plan were \$46,706 which is 2.81 percent of covered payroll. The employer rate is 3.87% of covered payroll except for any salaries derived from Federal funds where the employer rate is 2.00%. The

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset At June 30, 2016, Tennessee Housing Development Agency reported an asset of \$12,713 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension asset was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2015 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015 measurement date, Tennessee Housing Development Agency's proportion was 0.457171 percent, representing the first time presentation of this proportion.

Pension expense For the year ended June 30, 2016, Tennessee Housing Development Agency (THDA) recognized a pension expense of \$10,546.

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2016, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ 4,730
Net difference between projected and actual earnings on pension plan investments	737	—
Tennessee Housing Development Agency's contributions subsequent to the measurement date of June 30, 2015	46,706	—
Total	<u>\$ 47,443</u>	<u>\$ 4,730</u>

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of \$46,706 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2017. Other

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2017	\$	(407)
2018		(407)
2019		(407)
2020		(407)
2021		(591)
Thereafter		(1,774)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions The total pension asset as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

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	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	\$ (4,995)	\$ (12,713)	\$ (18,490)

Payable to the Pension Plan

At June 30, 2016, THDA reported a payable of \$13,189 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

c. Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2016 for both defined benefit pension plans was \$565,523.

NOTE 7. DEFERRED COMPENSATION PLANS

The Tennessee Housing Development Agency, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to IRC, Section 457 and the other pursuant to IRC, Section 401(k). The plans are outsourced to third party vendors and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The Tennessee Housing Development Agency provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014 voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of *Public Acts of 2013*, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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The Tennessee Housing Development Agency recognized a pension expense of \$186,417 for employer contributions.

NOTE 8. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

NOTE 9. INSURANCE-RELATED ACTIVITIES

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b. Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property and crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there

TENNESSEE HOUSING DEVELOPMENT AGENCY
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is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2016, is presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2016, the Risk Management Fund held \$142.9 million in cash designated for payment of claims

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans - the State

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* Section 8-27-201. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. Any employee hired on or after July 1, 2015 is not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation - The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including the Tennessee Housing Development Agency (see Note 11). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy - The premium requirements of plan members of the State Employment Group Plan are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan, adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 25 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retirees 65 years of age or older are provided flat-rate premium subsidies, based on years of service. Retirees with 30 years of service receive \$50 per month; retirees with 25 but less than 30 years of service, \$37.50; and retirees with 15 but less than 20 years of service, \$25.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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THDA Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan
(Thousands)

June 30, 2016

Annual Required Contribution (ARC)	\$341
Interest on the Net OPEB Obligation	57
Adjustment to the ARC	(57)
Annual OPEB cost	341
Amount of contribution	(255)
Increase in Net OPEB Obligation	86
Net OPEB Obligation-beginning of year	1,516
Net OPEB Obligation-end of year	\$1,602

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost (Thousands)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation At Year End (Thousands)</u>
6/30/2016	State Employee Group Plan	\$ 341	74%	\$ 1,602
6/30/2015	State Employee Group Plan	\$ 357	71%	\$ 1,516
6/30/2014	State Employee Group Plan	\$ 346	68%	\$ 1,413

Funded Status and Funding Progress The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2015, was as follows (thousands):

Actuarial valuation date	7/01/2015
Actuarial accrued liability (AAL)	\$ 2,923
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	\$ 2,923
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 10,046
UAAL as a percentage of covered payroll	29%

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2015, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreases to 6% in fiscal year 2016, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

NOTE 11. ON-BEHALF PAYMENTS

During the year ended June 30, 2016, the State of Tennessee made payments of \$6,488 on behalf of THDA for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

NOTE 12. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

NOTE 13. SUBSEQUENT EVENTS

- a. Residential Finance Program Bonds, Issue 2016-3, were authorized by the Board of directors on September 20, 2016, not to exceed \$66,165,000. The sale of the Bonds will occur no later than December 31, 2016.
- b. Residential Finance Bonds, Issue 2016-2, were sold on October 18, 2016. The bond maturities are as follow:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
<u>Series</u>	<u>Maturity Range</u>	<u>Amount</u>	<u>Rate</u>
			<u>(Percent)</u>
2016-2	7/1/2017-1/1/2047	\$125,000	0.720 to 3.500

- c. Residential Finance Bonds, Issue 2016-3, were sold on November 17, 2016. The bond maturities are as follow:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
<u>Series</u>	<u>Maturity Range</u>	<u>Amount</u>	<u>Rate</u>
			<u>(Percent)</u>
2016-3	7/1/2017-7/1/2031	\$62,000	1.000 to 3.500

NOTE 14. EVENTS (UNAUDITED) SUBSEQUENT TO THE DATE OF THE INDEPENDENT AUDITOR'S REPORT

- a. Residential Finance Program Bonds, Issue 2017-1, were authorized by the Board of directors on January 24, 2017, not to exceed \$100,000,000. The sale of the Bonds will occur no later than June 30, 2017.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

- b.** Residential Finance Program Bonds, Issue 2017-2, were authorized by the Board of directors on March 28, 2017, not to exceed \$200,000,000. The sale of the Bonds will occur no later than September 30, 2017.

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET
STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA;s Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
2016	0.457171%	\$ 13	498	2.60%	142.55%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.421046%	\$ 5,429	\$ 10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of informjamation is available

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
STATE AND HIGHER EDUCATION EMPLOYEE RETIREMENT PLAN
(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA;s Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2016	\$ 47	\$ 47	\$ -	\$ 1,661	2.81%
2015	19	19	-	498	3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2016	\$ 1,539	\$ 1,539	\$ -	\$ 10,240	15.03%
2015	1,652	1,652	-	10,994,	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%
2009	1,201	1,201	-	9,224	13.02%
2008	1,297	1,297	-	9,522	13.62%
2007	1,175	1,175	-	8,627	13.62%

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYEE BENEFITS SCHEDULE OF FUNDING PROGRESS
(Expressed in Thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2011	State Employee Group Plan	\$ -0-	\$ 2,919	\$ 2,919	0%	\$ 9,818	30%
7/1/2013	State Employee Group Plan	\$ -0-	\$ 2,964	\$ 2,964	0%	\$ 9,841	30%
7/1/2015	State Employee Group Plan	\$ -0-	\$ 2,923	\$ 2,923	0%	\$10,046	29%

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2016
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,897	\$ 11,071	\$ 78,576	\$ 31,284	\$ 94,195	\$ 218,023
Investments	-	6,594	10,594	9,395	47,628	74,211
Receivables:						
Accounts	232	359	2,235	537	697	4,060
Interest	-	29	4,522	3,021	4,372	11,944
First mortgage loans	-	1,949	23,393	9,990	23,743	59,075
Due from federal government	26,361	-	-	-	-	26,361
Due from other funds	2,189	-	-	-	-	2,189
Prepaid expenses	1	-	-	-	-	1
Total current assets	31,680	20,002	119,320	54,227	170,635	395,864
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	3,299	-	4,278	3,443	2,627	13,647
Investments	-	-	105,430	17,991	34,443	157,864
Investment Interest receivable	-	-	1,186	33	107	1,326
Investments	-	7,474	501	1,799	32,879	42,653
First mortgage loans receivable	717	46,066	562,052	372,924	867,673	1,849,432
Second mortgage loans receivable	-	-	21,326	-	-	21,326
Allowance for forgivable second mortgage	-	-	(7,808)	-	-	(7,808)
Advance to local government	3,107	-	-	-	-	3,107
Net pension asset	13	-	-	-	-	13
Capital assets:						
Furniture and equipment	2,631	-	-	-	-	2,631
Less accumulated depreciation	(1,456)	-	-	-	-	(1,456)
Total noncurrent assets	8,311	53,540	686,965	396,190	937,729	2,082,735
Total assets	39,991	73,542	806,285	450,417	1,108,364	2,478,599
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	759	981
Deferred outflows related to pensions	2,161	-	-	-	-	2,161
Total deferred outflows of resources	2,161	-	222	-	759	3,142
LIABILITIES						
Current liabilities:						
Accounts payable	9,217	2	12	-	4	9,235
Accrued payroll and related liabilities	585	-	-	-	-	585
Investments purchased	-	-	-	-	-	-
Compensated absences	633	-	-	-	-	633
Due to primary government	72	-	-	-	-	72
Interest payable	-	-	11,236	6,596	14,468	32,300
Escrow deposits	-	89	-	-	-	89
Prepayments on mortgage loans	-	-	399	196	566	1,161
Due to federal government	1,679	-	-	-	-	1,679
Due to other funds	-	-	2,065	-	124	2,189
Bonds payable	-	-	52,870	17,295	30,195	100,360
Arbitrage rebate payable	-	-	3,684	-	-	3,684
Total current liabilities	12,186	91	70,266	24,087	45,357	151,987
Noncurrent liabilities:						
Bonds payable	-	-	485,047	376,119	944,968	1,806,134
Compensated absences	611	-	-	-	-	611
Net pension liability	5,429	-	-	-	-	5,429
Net OPEB obligation	1,602	-	-	-	-	1,602
Escrow deposits	336	509	-	-	2,503	3,348
Arbitrage rebate payable	-	-	410	-	-	410
Total noncurrent liabilities	7,978	509	485,457	376,119	947,471	1,817,534
Total liabilities	20,164	600	555,723	400,206	992,828	1,969,521
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	1,288	-	-	-	-	1,288
Total deferred inflows of resources	1,288	-	-	-	-	1,288
NET POSITION						
Net investment in capital assets	1,175	-	-	-	-	1,175
Restricted for single family bond programs	-	41	250,784	50,211	116,295	417,331
Restricted for grant programs	-	9,617	-	-	-	9,617
Restricted for Homebuyers Revolving Loan	3,153	-	-	-	-	3,153
Restricted for net pension asset	13	-	-	-	-	13
Unrestricted	16,359	63,284	-	-	-	79,643
Total net position	\$ 20,700	\$ 72,942	\$ 250,784	\$ 50,211	\$ 116,295	\$ 510,932

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ 11	\$ 51	\$ 34,588	\$ 19,159	\$ 36,426	\$ 90,235
Investment income:						
Interest	38	200	6,847	618	2,011	9,714
Net increase (decrease) in the fair value of investments	-	(129)	(3,519)	126	(320)	(3,842)
Federal grant administration fees	13,346	-	-	-	-	13,346
Fees and other income	2,753	-	-	-	953	3,706
Total operating revenues	16,148	122	37,916	19,903	39,070	113,159
OPERATING EXPENSES						
Salaries and benefits	15,845	-	-	-	-	15,845
Contractual services	4,976	-	-	-	13	4,989
Materials and supplies	1,233	-	-	-	-	1,233
Rentals and insurance	18	-	-	-	-	18
Other administrative expenses	571	-	-	-	-	571
Other program expenses	323	65	7,993	158	1,144	9,683
Interest expense	-	-	23,713	13,456	24,876	62,045
Mortgage service fees	-	92	2,260	1,436	2,967	6,755
Issuance costs	-	-	-	-	2,311	2,311
Depreciation	511	-	-	-	-	511
Total operating expenses	23,477	157	33,966	15,050	31,311	103,961
Operating income (loss)	(7,329)	(35)	3,950	4,853	7,759	9,198
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	269,217	-	-	-	-	269,217
Other grant revenue	-	9	-	-	-	9
Federal grants expenses	(269,057)	-	-	-	-	(269,057)
Local grants expenses	(12,842)	-	-	-	-	(12,842)
Total nonoperating revenues (expenses)	(12,682)	9	-	-	-	(12,673)
Income (loss) before transfers	(20,011)	(26)	3,950	4,853	7,759	(3,475)
Transfers (to) other funds	-	-	(42,180)	-	-	(42,180)
Transfers from other funds	19,351	6,517	-	8,831	7,481	42,180
Change in net position	(660)	6,491	(38,230)	13,684	15,240	(3,475)
Total net position, July 1	21,360	66,451	289,014	36,527	101,055	514,407
Total net position, June 30	\$ 20,700	\$ 72,942	\$ 250,784	\$ 50,211	\$ 116,295	\$ 510,932

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ -	\$ 3,210	\$ 211,158	\$ 92,903	\$ 110,315	\$ 417,586
Receipts from federal government	12,862	-	-	-	-	12,862
Receipts from other funds	1,299	-	-	-	-	1,299
Other miscellaneous receipts	2,753	-	-	-	953	3,706
Acquisition of mortgage loans	-	(2,627)	(16,894)	-	(273,954)	(293,475)
Payments to service mortgages	-	(92)	(2,260)	(1,436)	(2,967)	(6,755)
Payments to suppliers	(4,980)	(65)	(1,800)	(179)	(1,180)	(8,204)
Payments to other funds	-	-	-	-	(1,299)	(1,299)
Payments to or for employees	(17,046)	-	-	-	-	(17,046)
Net cash provided (used) by operating activities	(5,112)	426	190,204	91,288	(168,132)	108,674
Cash flows from non-capital financing activities:						
Operating grants received	258,403	8	-	-	-	258,411
Transfers in (out)	19,351	6,517	4,178	8,831	(38,877)	-
Proceeds from sale of bonds	-	-	-	-	306,902	306,902
Operating grants paid	(285,892)	-	-	-	-	(285,892)
Cost of issuance paid	-	-	-	-	(2,311)	(2,311)
Principal payments	-	-	(210,520)	(85,445)	(77,385)	(373,350)
Interest paid	-	-	(30,732)	(13,674)	(23,893)	(68,299)
Net cash provided (used) by non-capital financing activities	(8,138)	6,525	(237,074)	(90,288)	164,436	(164,539)
Cash flows from capital and related financing activities:						
Purchases of capital assets	(1,174)	-	-	-	-	(1,174)
Net cash used by capital and related financing activities	(1,174)	-	-	-	-	(1,174)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	18,199	153,221	33,007	200,972	405,399
Purchases of investments	-	(27,712)	(137,209)	(40,381)	(222,471)	(427,773)
Investment interest received	38	205	7,057	685	2,023	10,008
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	39	18	30	87
Net cash provided (used) by investing activities	38	(9,308)	23,108	(6,671)	(19,446)	(12,279)
Net decrease in cash and cash equivalents	(14,386)	(2,357)	(23,762)	(5,671)	(23,142)	(69,318)
Cash and cash equivalents, July 1	20,582	13,428	106,616	40,398	119,964	300,988
Cash and cash equivalents, June 30	\$ 6,196	\$ 11,071	\$ 82,854	\$ 34,727	\$ 96,822	\$ 231,670

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (7,329)	\$ (35)	\$ 3,950	\$ 4,853	\$ 7,759	\$ 9,198
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	511	-	-	-	-	511
Pension expense	566	-	-	-	-	566
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(229)	85	13,102	9,722	2,857	25,537
(Increase) decrease in mortgage interest receivable	21	25	1,723	578	(780)	1,567
(Increase) in deferred pension outflows	(1,586)	-	-	-	-	(1,586)
(Increase) decrease in mortgage loans receivable	133	395	149,884	63,483	(203,100)	10,795
(Increase) in due from federal government	(484)	-	-	-	-	(484)
Decrease in interfund receivables	1,299	-	-	-	-	1,299
(Decrease) in interfund payables	-	-	-	-	(1,299)	(1,299)
Increase (decrease) in accounts payable	1,902	27	(131)	(60)	935	2,673
Increase in accrued payroll / compensated absences	121	-	-	-	-	121
Increase in due to primary government	1	-	-	-	-	1
Increase in arbitrage rebate liability	-	-	1,291	-	-	1,291
Investment income included as operating revenue	(38)	(71)	(3,328)	(744)	(1,691)	(5,872)
Interest expense included as operating expense	-	-	23,713	13,456	24,876	62,045
Issuance cost included as operating expense	-	-	-	-	2,311	2,311
Total adjustments	2,217	461	186,254	86,435	(175,891)	99,476
Net cash provided (used) by operating activities	\$ (5,112)	\$ 426	\$ 190,204	\$ 91,288	\$ (168,132)	\$ 108,674
Noncash investing, capital, and financing activities:						
Increase (decrease) in fair value of investments	\$ -	\$ 6	\$ 559	\$ (220)	\$ (277)	\$ 68
Total noncash investing, capital, and financing activities	\$ -	\$ 6	\$ 559	\$ (220)	\$ (277)	\$ 68

***UNAUDITED FINANCIAL
INFORMATION***

December 31, 2016

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

	December 31, 2016					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2016
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 11,107	\$ 7,699	\$ 87,773	\$ 39,493	\$ 101,397	\$ 247,469
Investments	-	-	56,900	-	999	57,899
Receivables:						
Accounts	-	370	-	-	-	370
Interest	-	25	3,551	2,787	5,743	12,106
First mortgage loans	313	2,024	21,112	9,846	29,350	62,645
Due from federal government	14,024	-	-	-	-	14,024
Due from other funds	1,674	-	-	-	391	2,065
Prepaid Expenses	1	-	-	-	-	1
Total current assets	27,119	10,118	169,336	52,126	137,880	396,579
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	9,371	-	13,731	57	124	23,283
Investments	-	-	91,693	21,082	41,660	154,435
Investment interest receivable	-	-	1,032	13	71	1,116
Investments	-	12,098	-	1,191	47,846	61,135
First mortgage loans receivable	395	47,318	417,300	336,985	1,032,441	1,834,439
Second mortgage loans receivable	-	-	25,325	-	-	25,325
Allowance for forgivable second mortgages	-	-	(9,834)	-	-	(9,834)
Advance to local government	3,116	-	-	-	-	3,116
Net pension asset	13	-	-	-	-	13
Capital assets:						
Furniture and equipment	2,631	-	-	-	-	2,631
Less accumulated depreciation	(1,456)	-	-	-	-	(1,456)
Total noncurrent assets	14,070	59,416	539,247	359,328	1,122,142	2,094,203
Total assets	41,189	69,534	708,583	411,454	1,260,022	2,490,782
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	759	981
Deferred outflows related to pensions	2,161	-	-	-	-	2,161
Total deferred outflows of resources	2,161	-	222	-	759	3,142
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 4,013	\$ 2	\$ 330	\$ 1,123	\$ 526	\$ 5,994
Accrued payroll and related liabilities	1,931	-	-	-	-	1,931
Compensated absences	633	-	-	-	-	633
Interest payable	-	-	9,482	5,933	16,393	31,808
Escrow deposits	-	53	-	-	-	53
Prepayments on mortgage loans	-	-	266	172	678	1,116
Due to federal government	6,855	-	-	-	-	6,855
Due to other funds	-	-	2,065	-	-	2,065
Bonds payable	-	-	112,375	16,785	35,355	164,515
Total current liabilities	13,432	55	124,518	24,013	52,952	214,970
Noncurrent liabilities:						
Bonds payable	-	-	344,468	336,350	1,073,769	1,754,587
Compensated absences	611	-	-	-	-	611
Net pension liability	5,428	-	-	-	-	5,428
Net OPEB obligation	1,602	-	-	-	-	1,602
Escrow deposits	976	455	-	-	3,346	4,777
Arbitrage rebate payable	-	-	409	-	-	409
Total noncurrent liabilities	8,617	455	344,877	336,350	1,077,115	1,767,414
Total liabilities	22,049	510	469,395	360,363	1,130,067	1,982,384
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	1,288	-	-	-	-	1,288
Total deferred inflows of resources	1,288	-	-	-	-	1,288
NET POSITION						
Net investment in capital assets	1,175	-	-	-	-	1,175
Restricted for single family bond programs	-	51	239,410	51,091	130,714	421,266
Restricted for grant programs	-	12,543	-	-	-	12,543
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Unrestricted	15,685	56,430	-	-	-	72,115
Total net position	\$ 20,013	\$ 69,024	\$ 239,410	\$ 51,091	\$ 130,714	\$ 510,252

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Six Months Ended December 31, 2016

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2016
OPERATING REVENUES						
Mortgage interest income	\$ -	\$ 23	\$ 13,005	\$ 8,408	\$ 22,892	\$ 44,328
Investment income:						
Interest	-	56	2,683	291	718	3,748
Net increase (decrease) in the fair value of investments	-	(14)	(3,222)	(344)	(931)	(4,511)
Federal grant administration fees	6,857	-	-	-	-	6,857
Fees and other income	2,479	-	-	-	834	3,313
Total operating revenues	9,336	65	12,466	8,355	23,513	53,735
OPERATING EXPENSES						
Salaries and benefits	8,969	-	-	-	-	8,969
Contractual services	2,102	-	-	-	-	2,102
Materials and supplies	516	-	-	-	-	516
Rentals and insurance	21	-	-	-	-	21
Other administrative expenses	309	-	-	-	-	309
Other program expenses	140	4	2,251	78	512	2,985
Interest expense	-	-	9,175	5,741	14,649	29,565
Mortgage service fees	-	47	751	623	1,785	3,206
Issuance costs	-	-	-	-	1,472	1,472
Total operating expenses	12,057	51	12,177	6,442	18,418	49,145
Operating income (loss)	(2,721)	14	289	1,913	5,095	4,590
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	119,232	-	-	-	-	119,232
Other grant revenue	-	3	-	-	-	3
Federal grants expenses	(119,010)	-	-	-	-	(119,010)
Local grants expenses	(5,495)	-	-	-	-	(5,495)
Total nonoperating revenues (expenses)	(5,273)	3	-	-	-	(5,270)
Income (loss) before transfers	(7,994)	17	289	1,913	5,095	(680)
Transfers (to) other funds	-	(3,935)	(11,663)	(1,033)	-	(16,631)
Transfers from other funds	7,307	-	-	-	9,324	16,631
Change in net position	(687)	(3,918)	(11,374)	880	14,419	(680)
Total net position, July 1	20,700	72,942	250,784	50,211	116,295	510,932
Total net position, End of period	\$ 20,013	\$ 69,024	\$ 239,410	\$ 51,091	\$ 130,714	\$ 510,252

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Six Months Ended December 31, 2016

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2016
Cash flows from operating activities:						
Receipts from customers	\$ 872	\$ 1,436	\$ 69,602	\$ 46,277	\$ 79,817	\$ 198,004
Receipts from federal government	6,833	-	-	-	-	6,833
Receipts from other funds	515	-	-	-	-	515
Other miscellaneous receipts	2,479	-	-	-	834	3,313
Acquisition of mortgage loans	-	(2,843)	(5,536)	-	(131,867)	(140,246)
Payments to service mortgages	-	(47)	(751)	(623)	(1,785)	(3,206)
Payments to suppliers	(3,162)	(4)	-	-	-	(3,166)
Payments to federal government	-	-	(3,685)	-	-	(3,685)
Payments to other funds	-	-	-	-	(515)	(515)
Payments to or for employees	(7,794)	-	-	-	-	(7,794)
Net cash provided (used) by operating activities	(257)	(1,458)	59,630	45,654	(53,516)	50,053
Cash flows from non-capital financing activities:						
Operating grants received	136,769	3	-	-	-	136,772
Transfers in (out)	7,307	(3,935)	83,471	(1,033)	(85,810)	-
Proceeds from sale of bonds	-	-	-	-	191,211	191,211
Operating grants paid	(129,537)	-	-	-	-	(129,537)
Cost of issuance paid	-	-	-	-	(1,472)	(1,472)
Principal payments	-	-	(80,305)	(39,810)	(55,605)	(175,720)
Interest paid	-	-	(11,697)	(6,872)	(14,369)	(32,938)
Net cash provided (used) by non-capital financing activities	14,539	(3,932)	(8,531)	(47,715)	33,955	(11,684)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	24,440	57,545	30,049	120,345	232,379
Purchases of investments	-	(22,486)	(92,857)	(23,490)	(96,854)	(235,687)
Investment interest received	-	62	2,842	316	746	3,966
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	2	21	9	23	55
Net cash provided (used) by investing activities	-	2,018	(32,449)	6,884	24,260	713
Net increase (decrease) in cash and cash equivalents	14,282	(3,372)	18,650	4,823	4,699	39,082
Cash and cash equivalents, July 1	6,196	11,071	82,854	34,727	96,822	231,670
Cash and cash equivalents, End of period	\$ 20,478	\$ 7,699	\$ 101,504	\$ 39,550	\$ 101,521	\$ 270,752

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Six Months Ended December 31, 2016

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2016
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (2,721)	\$ 14	\$ 289	\$ 1,913	\$ 5,095	\$ 4,590
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	232	(11)	2,235	537	697	3,690
(Increase) decrease in mortgage interest receivable	-	(2)	966	228	(1,363)	(171)
(Increase) decrease in mortgage loans receivable	-	(1,327)	49,926	36,083	(75,241)	9,441
(Increase) in due from federal government	(24)	-	-	-	-	(24)
Decrease in interfund receivables	515	-	-	-	-	515
(Decrease) in interfund payables	-	-	-	-	(515)	(515)
Increase (decrease) in accounts payable	468	(90)	185	1,099	1,477	3,139
(Decrease) in arbitrage rebate payable	-	-	(3,685)	-	-	(3,685)
Increase in accrued payroll / compensated absences	1,345	-	-	-	-	1,345
(Decrease) in due to primary government	(72)	-	-	-	-	(72)
Investment income included as operating revenue	-	(42)	539	53	213	763
Interest expense included as operating expense	-	-	9,175	5,741	14,649	29,565
Issuance cost included as operating expense	-	-	-	-	1,472	1,472
Total adjustments	2,464	(1,472)	59,341	43,741	(58,611)	45,463
Net cash provided (used) by operating activities	\$ (257)	\$ (1,458)	\$ 59,630	\$ 45,654	\$ (53,516)	\$ 50,053
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	-	(3)	(2,840)	(263)	(775)	(3,881)
Total noncash investing, capital, and financing activities	\$ -	\$ (3)	\$ (2,840)	\$ (263)	\$ (775)	\$ (3,881)

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS AND SERVICERS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the "Working Agreements"). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA's security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA's rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent's privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the "O. A. Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA currently has an agreement with U.S. Bank (the "Servicer") to service Program Loans (the "Servicing Agreement"). U.S. Bank services approximately 93% of THDA's entire portfolio of mortgage loans made or purchased with bond proceeds. The Servicing Agreement provides for the collection and remittance of Program Loan payments to THDA or a designated depository. Prior to remittance, the Servicer deducts a servicing fee, late charges and amounts to be held in escrow accounts for real property taxes, mortgage and hazard insurance premiums, and assessments. The servicing fee under the current Servicing Agreement is 3/8% annually. The Servicer is required to notify THDA in the event of any default on a Program Loan, and the Servicer may conduct foreclosure proceedings with the consent and at the expense of THDA. The Servicer is required to repurchase any Program Loan from THDA at any time THDA

suffers or is threatened with a material loss by reason of the Servicer's failure to perform its obligations under the Servicing Agreement. THDA may also terminate a Servicing Agreement for inadequate performance by the Servicer.

THDA began self-servicing the mortgage loan portfolio previously serviced by Pinnacle Bank through a division of THDA called Volunteer Mortgage Loan Servicing ("VMLS"). VMLS began servicing the former Pinnacle Bank portion of the THDA mortgage loan portfolio as of November 1, 2016. THDA anticipates servicing all new production beginning later in 2017. Thereafter, THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

Guide for Servicers

THDA provides each Servicer with a Guide for Servicers (the "Servicer Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax requirements. The Servicer Guide includes substantive servicing requirements, incorporates the limitation on assumption of mortgages contained in the federal tax code, and specifies the procedures to be followed by the Servicer to comply with THDA requirements and the federal tax code. The Servicer Guide also includes a list of the documents that must be maintained by the Servicer, copies of all THDA's servicing and loan assumption forms, together with instructions for their completion and a schedule for the submission of the required forms and reports to THDA.

THDA requires monthly reports from Servicers. Each Servicer's performance is monitored and its servicing record is subject to examination by THDA's staff. Examinations are performed monthly from documentation received from the Servicer.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the "General Residential Finance Program Bond Resolution."

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

"Account" means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

"Accountant" means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

"Act" means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

"Appreciation Bond" means any Bond whose Issue Amount is less than 97.5% of the Maturity Amount.

"Authorized Officer" means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

"Bond" or "Bonds" means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

"Bond Counsel's Opinion" means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

"Bondholder" or "holder" or words of similar import, when used with reference to a Bond means the registered owner of any Outstanding Bond.

"Bond Reserve Fund" means the Bond Reserve Fund established pursuant to Section 5.1.

"Bond Reserve Fund Requirement" means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

"Code" means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

- (1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;
- (2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

"Program Security" means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

"Projected Cash Flow Statement" means a Certificate delivered pursuant to the provisions of Section 7.11.

"Rating Agency" means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody's and S&P.

"Redemption Account" means the Redemption Account which is established and created in the Revenue Fund pursuant to this Resolution.

"Redemption Date" means the date upon which Bonds are to be called for redemption pursuant to this Resolution.

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

"Refunding Bond" means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

"Resolution" means this Resolution and any amendments or supplements made in accordance with its terms.

"Revenue Fund" means the Revenue Fund established pursuant to Section 5.1.

"Revenues" means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

"S&P" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, and any successor.

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

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

"State" means the State of Tennessee.

"Supplemental Resolution" means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

"THDA" means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

"Trustee" means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI
REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

(1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or

(2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or

(3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of or Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$823,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Amount Outstanding as of March 31, 2017 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A	December 23, 2009	\$100,000,000	--	\$ 12,005,000	3.96%
2010-A/ 2009-B, Subseries B-1	June 17, 2010	74,710,000	\$ 85,290,000	18,120,000	3.85
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	52,080,000	3.15
2011-A/ 2009-B, Subseries B-3	April 14, 2011	40,000,000	60,000,000	15,390,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	56,225,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,290,000	34,710,000	54,240,000	3.01
Issue 2015-A	May 28, 2015	<u>163,850,000</u>	<u> </u>	<u>123,615,000</u>	2.78
TOTAL		<u>\$523,850,000</u>	<u>\$300,000,000</u>	<u>\$331,675,000</u>	

(1) Bond yield.

As of March 31, 2017 (unaudited), 3,566 mortgage loans in the approximate aggregate principal amount of \$310,441,579 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$827,690,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of March 31, 2017 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2007-4	October 30, 2007	\$150,000,000	\$ 27,000,000	4.79
2008-1	May 29, 2008	60,000,000	14,695,000	4.93
2009-1	June 11, 2009	50,000,000	17,770,000	4.39
2009-2	September 30, 2009	75,000,000	23,970,000	4.06
2010-1	October 13, 2010	120,700,000	48,910,000	3.57
2011-1	December 1, 2011	141,255,000	78,925,000	3.80
2012-1	July 19, 2012	133,110,000	74,085,000	3.26
2012-2	November 15, 2012	<u>97,625,000</u>	<u>58,170,000</u>	2.92
TOTAL		<u>\$827,690,000</u>	<u>\$343,525,000</u>	

(1) Bond yield.

As of March 31, 2017 (unaudited), 6,615 mortgage loans in the approximate aggregate principal amount of \$377,322,488 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets, including mortgage loans purchased with bond proceeds, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. THDA established eligibility requirements for the mortgage credit certificate program and loans assisted with a mortgage credit certificate may not be funded with proceeds of qualified mortgage bonds such as the Issue 2017-2 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets, other than its mortgage assets (the “non-mortgage assets”). These non-mortgage assets are invested only in investments authorized by the Act, THDA’s investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA’s investment of THDA non-mortgage assets to the Executive Director of THDA.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bonds certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds certificates will be printed and delivered.

RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES

General

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2017-2 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

THDA's current income limits range from \$56,100 to \$95,900 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

U.S. Bank currently services approximately 93% of THDA's mortgage loan portfolio. THDA began self-servicing the mortgage loan portfolio previously serviced by Pinnacle Bank through a division of THDA called Volunteer Mortgage Loan Servicing ("VMLS"). VMLS began servicing the former Pinnacle Bank portion of the THDA mortgage loan portfolio as of November 1, 2016. THDA anticipates servicing all new production beginning later in 2017. Thereafter, THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

THDA requires regular reports from Servicers updating the total number of Program Loans serviced and providing certain information for each Program Loan including, without limitation, delinquency and foreclosure data. THDA's agreements with Servicers (the "Servicing Agreements") provide for the collection and remittance of Program Loan payments to THDA or a designated depository. The Servicers' records relating to serviced Program Loans are subject to examination by THDA's Single Family and Internal Audit Divisions.

THDA provides each Servicer with a Guide for Servicers which sets forth complete requirements and procedures for servicing Program Loans. THDA may terminate any Servicing Agreement when there is inadequate performance by the Servicer. THDA may also require that a Servicer purchase any Program Loan from THDA at any time THDA suffers or is threatened with a material loss by reason of a Servicer's failure to perform its obligations with respect to the Program Loans under the Servicing Agreement. For information about Servicing Agreements and substantive requirements relating to servicing Program Loans, see Appendix C.

June 27, 2017

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$23,110,000 Issue 2017-2A (AMT)
\$151,890,000 Issue 2017-2B (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$23,110,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2017-2A (AMT) (the "Issue 2017-2A Bonds"), and \$151,890,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2017-2B (Non-AMT) (the "Issue 2017-2B Bonds" and, together with the Issue 2017-2A Bonds, the "Issue 2017-2 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2017-2 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on March 28, 2017, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on May 17, 2017 (together, the "Supplemental Resolution," and, together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2017-2 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2017-2 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2017-2 Bonds are being issued to refund certain outstanding obligations of THDA and to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2017-2 Bonds in order that interest on the Issue 2017-2 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2017-2 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.

2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.
3. The Issue 2017-2 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.
4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2017-2 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.
5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2017-2 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.
6. The Issue 2017-2 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.
7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2017-2 Bonds is excluded from gross income of the owners thereof for federal income tax purposes; (ii) interest on the Issue 2017-2A Bonds will be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on the Issue 2017-2B Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.
8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2017-2 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2017-2 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2017-2 Bonds may have to take interest on such Issue 2017-2 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2017-2 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2017-2 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2017-2 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES**Delinquencies and Foreclosures as of December 31, 2016*

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.92%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	182	\$16,994,592	1.92%	1.43% ⁽⁴⁾
VA Guaranteed	8	588,835	3.19	0.81
Privately Insured	14	1,080,351	1.72	0.50
USDA/RD Guaranteed.....	17	1,222,844	2.35	(5)
Uninsured.....	<u>3</u>	<u>146,440</u>	0.75	(5)
TOTAL.....	<u>224</u>	<u>20,033,063⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.25%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	489	\$41,481,830	5.16%	2.31% ⁽⁴⁾
VA Guaranteed	14	1,069,711	5.58	1.49
Privately Insured	46	3,377,391	5.67	0.94
USDA/RD Guaranteed.....	48	3,680,889	6.65	(5)
Uninsured.....	<u>19</u>	<u>1,152,305</u>	4.75	(5)
TOTAL.....	<u>606</u>	<u>\$50,762,126⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bond issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding loans financed pursuant to the 1974 General Resolution that were transferred to the General Resolution as of June 30, 2014. The delinquency and foreclosure data does not include data regarding Allocated Program Loans expected to be transferred to the General Resolution in connection with the Offered Bonds.

The overall rate of Program Loans in foreclosure was 0.87%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of December 31, 2016 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2016, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	82	\$ 8,206,900	0.87%	0.80% ⁽⁴⁾
VA Guaranteed	5	575,617	1.99	0.94
Privately Insured	8	764,257	0.99	0.36
USDA/RD Guaranteed.....	4	306,630	0.55	(5)
Uninsured.....	<u>2</u>	<u>150,346</u>	0.50	(5)
TOTAL.....	<u>101</u>	<u>\$10,003,751</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of September 30, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.09%, based on a total of 10,351 Program Loans as of September 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	190	\$17,536,058	2.13%	1.33% ⁽⁴⁾
VA Guaranteed	5	410,693	2.16	0.80
Privately Insured	3	143,181	1.21	0.41
USDA/RD Guaranteed.....	13	1,130,721	2.11	(5)
Uninsured.....	<u>5</u>	<u>350,498</u>	1.52	(5)
TOTAL.....	<u>216</u>	<u>\$19,571,150</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.66%, based on a total of 10,351 Program Loans as of September 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	411	\$33,156,480	4.60%	2.21% ⁽⁴⁾
VA Guaranteed	17	1,298,092	7.36	1.39
Privately Insured	11	757,325	4.45	0.66
USDA/RD Guaranteed.....	28	2,065,701	4.55	(5)
Uninsured.....	<u>15</u>	<u>825,855</u>	4.57	(5)
TOTAL.....	<u>482</u>	<u>\$38,103,452</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.56%, based on a total of 10,351 Program Loans as of September 30, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2016 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2016, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	50	\$4,620,684	0.56%	0.73% ⁽⁴⁾
VA Guaranteed	1	108,481	0.43	0.85
Privately Insured	2	102,416	0.81	0.30
USDA/RD Guaranteed.....	5	354,826	0.81	(5)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(5)
TOTAL.....	<u>58</u>	<u>5,186,407</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of June 30, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.79%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	154	\$14,078,803	1.78%	1.32% ⁽⁴⁾
VA Guaranteed	4	425,812	1.75	0.85
Privately Insured	1	60,180	0.38	0.41
USDA/RD Guaranteed.....	11	730,297	1.76	(5)
Uninsured.....	<u>11</u>	<u>599,947</u>	3.30	(5)
TOTAL	<u>181</u>	<u>\$15,895,039</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.48%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	392	\$30,675,684	4.54%	2.19% ⁽⁴⁾
VA Guaranteed	14	1,029,600	6.14	1.54
Privately Insured	11	793,504	4.21	0.71
USDA/RD Guaranteed.....	27	2,046,327	4.31	(5)
Uninsured.....	<u>8</u>	<u>475,352</u>	2.40	(5)
TOTAL	<u>452</u>	<u>\$35,020,467</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.39%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of June 30, 2016 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2016, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	37	\$3,457,063	0.43%	0.73% ⁽⁴⁾
VA Guaranteed	2	98,457	0.88	0.84
Privately Insured	0	0	0.00	0.30
USDA/RD Guaranteed.....	0	0	0.00	(5)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(5)
TOTAL	<u>39</u>	<u>\$3,555,520</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of March 31, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.57%, based on a total of 9,444 Program Loans as of March 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	122	\$10,164,258	1.50%	1.09% ⁽⁴⁾
VA Guaranteed	6	707,269	2.69	0.70
Privately Insured	4	269,086	2.31	0.40
USDA/RD Guaranteed.....	7	542,870	1.16	(5)
Uninsured.....	<u>9</u>	<u>572,807</u>	2.84	(5)
TOTAL	<u>148</u>	<u>\$12,256,290</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.17%, based on a total of 9,444 Program Loans as of March 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	346	\$26,591,556	4.26%	2.50% ⁽⁴⁾
VA Guaranteed	10	712,701	4.48	1.53
Privately Insured	6	359,584	3.47	0.77
USDA/RD Guaranteed.....	24	1,884,229	3.99	(5)
Uninsured.....	8	400,949	2.52	(5)
TOTAL	<u>394</u>	<u>\$29,949,019</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.64%, based on a total of 9,444 Program Loans as of March 31, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2016 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2016, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	55	\$5,165,817	0.68%	0.84% ⁽⁴⁾
VA Guaranteed	3	246,218	1.35	0.87
Privately Insured	0	0	0.00	0.31
USDA/RD Guaranteed.....	2	124,769	0.33	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>60</u>	<u>\$5,536,805</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.



Tennessee Housing
Development Agency

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2017-3 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that interest on the Issue 2017-3 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"). In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2017-3 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2017-3 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds

\$99,900,000 Issue 2017-3 (Non-AMT)

Dated: Date of Delivery

Due: As shown on inside front cover

The Issue 2017-3 Bonds (the "Issue 2017-3 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on January 1, 2018, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about September 28, 2017.

RAYMOND JAMES

CITIGROUP

FTN FINANCIAL CAPITAL MARKETS

WELLS FARGO SECURITIES

RBC CAPITAL MARKETS

J.P. MORGAN

WILEY BROS.—AINTREE CAPITAL, LLC

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$99,900,000 Issue 2017-3 (Non-AMT)

\$16,905,000 Serial Bonds						
<u>Year</u>	<u>Principal Amount Due January 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>	<u>Principal Amount Due July 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
2018				\$ 530,000	0.80 %	880461PU6
2019	\$ 655,000	0.90%	880461PV4	660,000	1.00	880461PW2
2020	670,000	1.05	880461PX0	670,000	1.15	880461PY8
2021	680,000	1.30	880461PZ5	685,000	1.35	880461QA9
2022	695,000	1.45	880461QB7	705,000	1.45	880461QC5
2023	710,000	1.70	880461QD3	720,000	1.80	880461QE1
2024	730,000	1.90	880461QF8	735,000	1.95	880461QG6
2025	750,000	2.05	880461QH4	760,000	2.10	880461QJ0
2026	775,000	2.30	880461QK7	785,000	2.35	880461QL5
2027	795,000	2.45	880461QM3	810,000	2.50	880461QN1
2028	820,000	2.60	880461QP6	840,000	2.65	880461QQ4
2029	855,000	2.75	880461QR2	870,000	2.80	880461QS0

\$82,995,000 Term Bonds			
<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
January 1, 2031	\$ 2,720,000	3.00 %	880461QT8
July 1, 2032	2,890,000	3.15	880461QU5
July 1, 2037	11,075,000	3.40	880461QV3
July 1, 2042	13,800,000	3.60	880461QW1
July 1, 2047	17,260,000	3.65	880461QX9
January 1, 2048 (PAC)	35,250,000	3.50	880461QY7

PRICE OF ISSUE 2017-3 BONDS DUE JULY 1, 2042: 100.160%

PRICE OF ISSUE 2017-3 BONDS DUE JANUARY 1, 2048 (PAC): 107.820%

PRICE OF ALL REMAINING ISSUE 2017-3 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds

\$99,900,000 Issue 2017-3 (Non-AMT)

INTRODUCTION

This Official Statement (the “Official Statement”) provides certain information in connection with the issuance by the Tennessee Housing Development Agency (“THDA”) of its Residential Finance Program Bonds, Issue 2017-3 in the aggregate principal amount of \$99,900,000 (the “Issue 2017-3 Bonds” or the “Offered Bonds”).

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the “Act”). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the “General Resolution”) and by a Resolution adopted by THDA on July 25, 2017, as amended and supplemented by the Bond Finance Committee of THDA (the “Bond Finance Committee”) on August 23, 2017 (the “Issue 2017-3 Supplemental Resolution”). The General Resolution and the Issue 2017-3 Supplemental Resolution are herein collectively referred to as the “Resolution.”

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2017-3 Bonds on July 24, 2017.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of June 30, 2017 (unaudited), Bonds in the aggregate principal amount of \$1,302,500,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$318,215,000 were outstanding under THDA’s Housing Finance Program Resolution (the “2009 General Resolution”), and bonds in the aggregate principal amount of \$323,335,000 were outstanding under THDA’s Homeownership Program Resolution (the “1985 General Resolution”). No bonds are outstanding under THDA’s Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”). For more information see “Other Financings—Housing Bond Resolution (Mortgage Finance Program)” in Appendix E.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption “SECURITY AND SOURCES OF PAYMENT OF BONDS”. All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the “Bonds”. The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the “Public Pledge Act”). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee’s codification of Article 9 of the Uniform Commercial Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of

the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects that the proceeds of the Issue 2017-3 Bonds will be used to: (i) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (ii) pay capitalized interest, if any; (iii) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (iv) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix G.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" refers to any new Program Loans (including participations therein) financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2017-3 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA does not intend to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance. While the Issue 2017-3 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of June 30, 2017 (unaudited), 13,081 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$1,255,951,946. Based on the outstanding principal balance of Program Loans as of June 30, 2017, approximately 84.96% were FHA insured, approximately 1.92% were VA guaranteed, approximately 6.68% were insured by private mortgage insurance companies, approximately 4.31% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.13% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See "RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data" and Appendix B under the heading "Private Mortgage Insurance Programs".

U.S. Bank National Association (the "Trustee") is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2017-3 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2017-3 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D "2013 GENERAL RESOLUTION". Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, ("DTC"), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F "BOOK-ENTRY-ONLY SYSTEM" for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2017-3 Bonds and is payable on January 1, 2018, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2017-3 Bonds maturing on January 1, 2031, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2030, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2017-3		
Term Bonds Due January 1, 2031		
<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2030	\$ 890,000	\$ 905,000
2031	925,000 (maturity)	

The Issue 2017-3 Bonds maturing on July 1, 2032, are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2031, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2017-3		
Term Bonds Due July 1, 2032		
<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2031		\$ 945,000
2032	\$ 965,000	980,000 (maturity)

The Issue 2017-3 Bonds maturing on July 1, 2037, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2033, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2017-3
Term Bonds Due July 1, 2037**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2033	\$ 1,000,000	\$ 1,025,000
2034	1,050,000	1,070,000
2035	1,095,000	1,115,000
2036	1,140,000	1,165,000
2037	1,195,000	1,220,000 (maturity)

The Issue 2017-3 Bonds maturing on July 1, 2042, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2038, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2017-3
Term Bonds Due July 1, 2042**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2038	\$ 1,245,000	\$ 1,275,000
2039	1,305,000	1,330,000
2040	1,360,000	1,390,000
2041	1,425,000	1,455,000
2042	1,490,000	1,525,000 (maturity)

The Issue 2017-3 Bonds maturing on July 1, 2047, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2043, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2017-3
Term Bonds Due July 1, 2047**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2043	\$ 1,555,000	\$ 1,595,000
2044	1,635,000	1,670,000
2045	1,710,000	1,735,000
2046	1,775,000	1,815,000
2047	1,865,000	1,905,000 (maturity)

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The Issue 2017-3 Bonds maturing on January 1, 2048 (the “PAC Bonds”), are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2018, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2017-3
PAC Term Bonds Due January 1, 2048**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2018		\$ 320,000
2019	\$ 325,000	330,000
2020	335,000	345,000
2021	350,000	360,000
2022	365,000	370,000
2023	380,000	385,000
2024	395,000	405,000
2025	410,000	420,000
2026	425,000	435,000
2027	445,000	455,000
2028	465,000	470,000
2029	480,000	490,000
2030	500,000	510,000
2031	520,000	530,000
2032	540,000	555,000
2033	565,000	575,000
2034	585,000	600,000
2035	610,000	625,000
2036	635,000	650,000
2037	660,000	675,000
2038	690,000	700,000
2039	715,000	730,000
2040	745,000	760,000
2041	775,000	790,000
2042	805,000	820,000
2043	840,000	855,000
2044	870,000	890,000
2045	905,000	935,000
2046	955,000	975,000
2047	990,000	1,000,000
2048	10,000 (maturity)	

Optional Redemption. Except as otherwise described in the follow paragraph, the Issue 2017-3 Bonds maturing on and after July 1, 2027, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after January 1, 2027, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2017-3 Principal Payments (as defined below). Any Excess 2017-3 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing January 1, 2018; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2017-3 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds are equal to or less than 400% PSA (as defined below under “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds”), as determined by THDA, then available Excess 2017-3 Principal Payments shall first be applied to redeem PAC Bonds up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the

remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds are in excess of 400% PSA, as determined by THDA, then available Excess 2017-3 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds shall first be applied to redeem PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “*Mandatory Redemption – 10 Year Rule*,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an “Excess Principal PAC Bond Redemption”); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2017-3 Principal Payments which is in excess of 400% PSA, and (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds’ proportionate amount of all Issue 2017-3 Bonds then Outstanding.

“Excess 2017-3 Principal Payments” means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

“Planned Amortization Amount” means the dollar amount for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the PAC Bonds assumed to be redeemed from Excess 2017-3 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds. See “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds” for a description of PSA prepayment rates.

The Planned Amortization Amounts for the PAC Bonds (which assumes the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedule

<u>Date</u>	<u>PAC Bonds Planned Amortization Amount</u>
January 1, 2018	\$ 120,000
July 1, 2018	540,000
January 1, 2019	1,565,000
July 1, 2019	3,170,000
January 1, 2020	5,310,000
July 1, 2020	7,930,000
January 1, 2021	10,710,000
July 1, 2021	13,405,000
January 1, 2022	15,980,000
July 1, 2022	18,440,000
January 1, 2023	20,790,000
July 1, 2023	23,030,000
January 1, 2024	25,170,000
July 1, 2024	27,205,000
January 1, 2025	29,140,000
July 1, 2025	30,975,000
January 1, 2026	32,710,000
July 1, 2026	34,350,000
January 1, 2027	35,250,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the PAC Bonds are redeemed from amounts on deposit in the Issue 2017-3 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds.”

Special Optional Redemption of the Offered Bonds, including Cross Calls The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading “DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds”; (ii) except as otherwise described under the headings “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and “ – Mandatory Redemption – 10 Year Rule”, repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, “Code”), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and (b) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bond to exceed the related Planned Amortization Amount shown above in the PAC Bonds Amortization Schedule. The Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph. See “ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments” and “ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices”.

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof financed with proceeds of the Offered Bonds shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the related Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedule only if there are no other Offered Bonds outstanding.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans or portions thereof financed with proceeds of the Offered Bonds in accordance with the following approximate 10 year rule percentages to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Commencement Date</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
September 28, 2017	0.00 %
September 28, 2027	100.00 %

THDA will redeem the Offered Bonds in accordance with this schedule to the extent required to comply with the Code. THDA reserves the right to modify this schedule at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory redemption on July 1, 2018, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2017-3 Bonds Subaccount of the Loan Fund on June 1, 2018, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2017-3 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on March 1, 2021, to the extent any amounts remain on deposit in the Issue 2017-3 Bonds Subaccount of the Loan Fund on February 1, 2021.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds and the Issue 2017-3 Bonds maturing on July 1, 2042 (the "2042 Term Bond") shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding.

Selection By Lot

If less than all of the Issue 2017-3 Bonds of like series and maturity are to be redeemed, the particular Issue 2017-3 Bonds of such series and maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

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APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2017-3 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 99,900,000.00
Premium on PAC Bond and 2042 Term Bond	2,778,630.00
TOTAL SOURCES	<u>\$ 102,678,630.00</u>

USES

Deposit to Loan Fund	\$ 99,900,000.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,000,000.00
Deposit to Bond Reserve Fund	961,166.43
Costs of Issuance	191,020.00
Underwriters' Fee	626,443.57
TOTAL USES	<u>\$ 102,678,630.00</u>

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the

Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumptions that THDA originates approximately \$99,900,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 4.61%. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2017-3 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA,

including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See “RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans” for descriptions of the various Program Loan products and Appendix G “RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES” for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2017-3 Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 4.61% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2017-3 Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2017-3 Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on July 26, 2017. As of August 14, 2017, THDA has committed a total principal amount of approximately \$14,418,000 of Program Loans, all of which are Great Choice Program Loans and Homeownership for the Brave Program Loans, that will be allocated to the Offered Bonds. See “RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans”. Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

In recent years a number of financial institutions and related entities have announced large losses as a result of their mortgage activities and the increasing number of defaults and foreclosures on such mortgages. The United States Congress has passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), and may pass additional legislation impacting the origination and servicing of mortgage loans. Likewise, the Tennessee General Assembly may enact legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA's single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA's activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA's single-family loans could adversely affect the THDA's ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D "2013 GENERAL RESOLUTION"), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds," "- Special Optional Redemption of the Offered Bonds, including Cross Calls" and "- Mandatory Redemption – 10-Year Rule".

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See "DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds."

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA's general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA's current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA's determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D "2013 GENERAL RESOLUTION" for a description of Program Expenses. THDA expects to use funds on deposit in the

Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters' fees, initial Trustee's fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see "THDA – THDA Funds". THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum; and (iii) funds on deposit in the Issue 2017-3 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term "weighted average life" refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term "prepayment" includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association ("PSA")) prepayment standard or model (commonly referred to as the "PSA Prepayment Model").

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, "0% PSA" assumes no prepayments of principal on the Program Loans. "25% PSA" assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. "50% PSA" assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. "75% PSA" assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. "100% PSA" assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. "200% PSA" assumes the principal of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. "300% PSA" assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. "400% PSA" assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. "500% PSA" assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors' housing needs, job transfers, unemployment and mortgagors' net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under "Changes in Federal or State Law" above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading "DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds", and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2017-3 Bond Subaccount of the Loan Fund is applied to finance Program Loans, (ii) Excess 2017-3 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iii) the PAC Bonds will be redeemed only in the Planned Amortization Amounts as described under the heading "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds" and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>PAC Bond Average Life (in years)</u>
0%	18.0
25	13.3
50	8.3
75	6.1
100	5.0
200	5.0
300	5.0
400	5.0
500	4.7

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RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

THDA has issued \$1,549,202,000 total original principal amount of bonds under the General Resolution, of which \$1,302,500,000 (unaudited) were outstanding as of June 30, 2017, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of June 30, 2017 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$ 122,355,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	79,315,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	110,980,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	122,025,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	135,000,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	157,285,000	3.25
Issue 2016-1	May 18, 2016	125,000,000	117,765,000	2.68
Issue 2016-2	October 18, 2016	125,000,000	120,775,000	2.68
Issue 2016-3	November 17, 2016	62,000,000	62,000,000	2.97
Issue 2017-1	March 30, 2017	100,000,000	100,000,000	3.15
Issue 2017-2	June 27, 2017	175,000,000	175,000,000	2.94
TOTAL		\$ 1,549,205,000	\$ 1,302,500,000	

(1) Bond yield.

Origination Experience

THDA's experience from May 30, 2013, to June 30, 2017, regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

<u>Issue of Bonds</u>	<u>Lendable Proceeds⁽²⁾</u>	<u>Program Loans Financed⁽³⁾ as of June 30, 2017</u>		<u>Weighted Average Interest Rate⁽⁴⁾</u>
		<u>Amount</u>	<u>%</u>	
Issue 2013-1	\$ 135,268,395	\$ 135,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	92,340,000	92,340,000	100.00	3.98
Issue 2016-2	91,685,000	91,685,000	100.00	3.87
Issue 2017-1	102,200,000	102,200,000	100.00	4.15
Issue 2017-2	129,790,000	62,560,238	48.20	5.04
TOTAL	\$1,127,083,875	\$1,059,853,953		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included. All lendable proceeds with respect to the Issue 2017-2 Bonds were committed as of July 26, 2017.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on July 26, 2017, and as of August 14, 2017, THDA has committed a total principal amount of approximately \$14,418,000 of Program Loans that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. The THDA Household Income Limits range from \$57,480 to \$96,180 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2017-3 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance. While the Issue 2017-3 Supplemental Resolution provides that Program Loans, or participations therein, to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. Since October 1, 2013, the THDA primary loan program has included Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. Since October 1, 2013, THDA has provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below. As of March 1, 2017, THDA began providing additional downpayment and closing cost assistance through its Hardest Hit Fund Down Payment Assistance program as described below.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 4.625%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans. From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans in a principal amount equal to 4% of the purchase price of the property purchased. From October 1, 2014, to September 30, 2016, Great Choice Plus Loans were 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, each Great Choice Plus loan will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

Since October 3, 2016, Great Choice Plus Loans are thirty year 0% interest rate second lien loans in a principal amount up to 5% of the purchase price of the property purchased. No monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. The full original principal amount will be forgiven at the end of the thirty year term.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA. THDA does not expect that Great Choice Plus loans will be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

Hardest Hit Fund Down Payment Assistance

In March 2017, THDA began providing \$15,000 in downpayment assistance from the fifth round of federal Hardest Hit Fund funding ("HHF-DPA") to eligible borrowers who qualify for THDA Great Choice loans and who are purchasing existing homes in one of fifty-five zip codes in thirty Tennessee counties. HHF-DPA is secured by a second deed of trust for a ten year term. HHF-DPA does not bear interest, and there are no monthly payments, but it is due on sale. HHF-DPA is forgiven at 20% per year in years six through ten. A THDA approved Homebuyer Education course is also required.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans are serviced by the Federation of Appalachian Housing Enterprises, Inc., as of January 1, 2015. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. As of December 1, 2016, the maximum loan amount was increased to \$123,750 for Maury, Williamson, Davidson, Rutherford, Wilson and Sumner Counties. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable.

As of June 30, 2017 (unaudited), 116 New Start Program Loans, with an aggregate principal balance of approximately \$5,705,222, were outstanding under the General Resolution. Although THDA may use amounts made

available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction.

As of June 30, 2017 (unaudited), 222 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$24,988,334, were outstanding under the General Resolution. Eligible borrowers will also be eligible for Great Choice Plus loans. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became transferred program loans allocable to the Issue 2013-1 Bonds under the General Resolution.

As of June 30, 2017 (unaudited), 179 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$10,218,047, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers prior to October 1, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds. THDA also provided downpayment and closing cost assistance in the form of a grant in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made.

As of June 30, 2017 (unaudited), 2,878 Great Rate, 135 Great Advantage, and 1,810 Great Start Program Loans, with an aggregate principal balance of approximately \$401,714,083, were outstanding under the General Resolution.

Residential Finance Program Portfolio Data

General

As of June 30, 2017 (unaudited), 13,081 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$1,255,951,946 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 307.10 months and an approximate weighted average interest rate of 4.50%.

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Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of June 30, 2017 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured.....	10,635	\$1,067,113,206	81.30%	84.96%
VA Guaranteed.....	260	24,161,700	1.99	1.92
Privately Insured.....	991	83,839,452	7.58	6.68
USDA/RD Guaranteed	769	54,126,025	5.88	4.31
Uninsured ⁽²⁾	426	26,711,563	3.26	2.13
TOTAL	13,081	\$1,255,951,946⁽⁴⁾	100.00%⁽⁴⁾	100.00%⁽⁴⁾

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution, either upon their direct transfer to the General Resolution or upon the refunding of other THDA obligations, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of June 30, 2017 (unaudited), 991⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$83,839,452 were outstanding under the General Resolution. As of June 30, 2017 (unaudited), THDA had the following information regarding the private mortgage insurers for 907 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance⁽³⁾</u>	<u>Percent of Total Number of Program Loans⁽³⁾</u>	<u>Percent of Total Outstanding Balance of Program Loans⁽³⁾</u>
Commonwealth/CMAC	3	\$ 79,696	0.02 %	0.01 %
Genworth Mortgage Insurance Corp. (GE)	365	32,054,871	2.79	2.55
MGIC	331	28,660,739	2.53	2.28
PMI Mortgage Insurance Co. ⁽²⁾	2	145,448	0.02	0.01
Radian Guaranty Inc.	5	289,569	0.04	0.02
Republic Mortgage Insurance Corporation	56	4,604,726	0.43	0.37
Triad Guaranty Insurance Corporation ⁽²⁾	7	439,122	0.05	0.03
United Guaranty Residential Insurance Co.	138	11,321,037	1.05	0.90
TOTAL	907	\$ 77,595,209⁽⁴⁾	6.93 %⁽⁴⁾	6.18 %⁽⁴⁾

(1) The private mortgage insurer is not identified with respect to 84 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA compiled data with respect to individual private mortgage insurance providers.

(2) Certain private mortgage insurance companies are under the oversight of their respective state insurance regulators and may pay claims at rates less than \$1.00 per \$1.00 of coverage.

(3) Rounded figures.

(4) Rounded total.

Program Loan Interest Rates

The following table summarizes, as of June 30, 2017 (unaudited), the interest rates of the outstanding Program Loans:

<u>Mortgage Rates (%)</u>	<u>Number of Program Loans⁽¹⁾</u>	<u>Outstanding Balance⁽²⁾</u>	<u>Percent of Total Number of Program Loans⁽²⁾</u>	<u>Percent of Total Outstanding Balance⁽²⁾</u>
0.00-1.99	174	\$ 8,050,249	1.33%	0.64%
2.00-2.99	2	163,428	0.02	0.01
3.00-3.99	3,786	448,526,109	28.94	35.71
4.00-4.49	3,170	373,479,847	24.23	29.74
4.50-4.99	1,359	138,419,028	10.39	11.02
5.00-5.49	1,286	103,740,472	9.83	8.26
5.50-5.99	1,593	94,702,278	12.18	7.54
6.00-6.49	573	45,181,918	4.38	3.60
6.50-6.99	617	29,797,268	4.72	2.37
7.00-7.49	236	7,800,334	1.80	0.62
7.50-7.99	205	4,249,466	1.57	0.34
8.00-8.99	76	1,788,214	0.58	0.14
9.00-9.49	3	43,933	0.02	0.00
9.50-12.00	1	9,403	0.01	0.00
TOTAL	13,081	\$1,255,951,946⁽³⁾	100.00 %⁽³⁾	100.00 %⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have

passed with no payment received by the last business day of the month in which the second payment was due are considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

The financial institutions who service Program Loans manage delinquencies by working with borrowers in an attempt to avoid defaults and by sending payment requests to borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

Delinquencies and Foreclosures as of June 30, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.43%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2017				
Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	152	\$ 14,659,035	1.43%	0.98% ⁽⁴⁾
VA Guaranteed	1	111,713	0.38	0.59
Privately Insured	11	888,734	1.11	0.63 ⁽⁵⁾
USDA/RD Guaranteed.....	18	1,232,049	2.34	⁽⁶⁾
Uninsured.....	5	295,682	1.17	⁽⁶⁾
TOTAL	<u>187</u>	<u>\$ 17,187,214⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.00%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	515	\$ 44,653,653	4.84%	1.90% ⁽⁴⁾
VA Guaranteed	19	1,319,090	7.31	1.21
Privately Insured	67	4,729,147	6.76	1.22 ⁽⁵⁾
USDA/RD Guaranteed.....	39	2,900,018	5.07	⁽⁶⁾
Uninsured.....	14	783,463	3.29	⁽⁶⁾
TOTAL	654	\$ 54,385,371 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.58%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of June 30, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2017, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	65	\$ 6,790,161	0.61%	0.59% ⁽⁴⁾
VA Guaranteed	2	273,802	0.77	0.90
Privately Insured	5	507,538	0.50	0.46 ⁽⁵⁾
USDA/RD Guaranteed.....	4	287,204	0.52	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	76	\$ 7,858,705 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the four most recent years and for the nine months ended March 31, 2017, and March 31, 2016. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2016, 2015, 2014, and 2013, and from unaudited financial information of THDA for the nine months ended March 31, 2017, and March 31, 2016.

	Nine Months Ended March 31 (Unaudited)		Year Ended June 30 (Audited)			
Residential Finance Bond Group	2017	2016	2016	2015	2014	2013
REVENUES:						
Interest on Mortgages	\$ 35,830	\$ 26,955	\$ 36,426	\$ 25,393	\$ 13,518	\$ 222
Investment Income:						
Interest	1,162	1,552	2,011	1,866	335	10
Net Increase (decrease) in the Fair Value of Investments	(938)	(180)	(320)	(552)	(146)	(83)
Fees and Other Income	888	646	953	160	-	76
	<u>36,942</u>	<u>28,973</u>	<u>39,070</u>	<u>26,867</u>	<u>13,707</u>	<u>225</u>
EXPENSES:						
Interest	22,224	17,893	24,876	17,058	9,087	551
Issuance Cost	2,322	1,303	2,311	2,343	2,167	1,679
Mortgage Servicing Fees	2,809	2,156	2,967	2,048	980	18
Other	466	917	1,157	1,001	239	1
	<u>27,821</u>	<u>22,269</u>	<u>31,311</u>	<u>22,450</u>	<u>12,473</u>	<u>2,249</u>
Excess of Revenues over Expenses	9,121	6,704	7,759	4,417	1,234	(2,024)
Net Position at beginning of period	116,295	101,055	101,055	105,707	(68,279)	-
Other Transfers	26,450	39,941	7,481	(9,069)	172,752	(66,255)
Net Position at end of period	<u>\$ 151,866</u>	<u>\$ 147,700</u>	<u>\$ 116,295</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>	<u>\$ (68,279)</u> ⁽¹⁾

⁽¹⁾ On May 30, 2013 THDA issued its Issue 2013-1 Bonds under the General Resolution. Proceeds of the Issue 2013-1 Bonds in an aggregate principal amount of \$75,905,000 were applied to the refunding of THDA's Issue 2003-A Bonds under the 1974 General Resolution and THDA's Issue 2004-1 Bonds under the 1985 General Resolution. While the Issue 2013-1 Bonds were issued on May 30, 2013, the assets allocable to the Issue 2003-A and the Issue 2004-1 Bonds in an aggregate amount of approximately \$99,855,200 did not transfer to the General Resolution until July 1, 2013, the date of the redemption of such bonds. As a result of such transfer, the net position of the General Resolution as of July 1, 2013, was approximately \$31,576,000 (unaudited).

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of June 30, 2017 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 69,553,039	\$ 34,160,359
Federal Home Loan Mortgage Corporation Notes	2,319,341	24,950,820
Fannie Mae Notes	32,508,501	8,512,116
Financing Corporation Bonds	0	2,433,550
TOTAL.....	<u>\$104,380,881</u>	<u>\$ 70,056,845</u>

As of June 30, 2017 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 1,228,635	\$ 14,196,501
Federal Home Loan Mortgage Corporation Notes	1,320,125	0
Fannie Mae Notes	0	8,512,116
TOTAL.....	<u>\$ 2,548,760</u>	<u>\$ 22,708,617</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2018.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of June 30, 2017 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$1,944,050,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Kim Grant Brown, Chairman	June 30, 2019	Owner, Grant & Company Collierville, TN
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Tre Hargett ⁽¹⁾	January, 2021	Secretary of State
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
Ronald K. Jones	June 30, 2020	Executive Director, Trevecca Towers Nashville
David H. Lillard, Jr. ⁽¹⁾	January, 2019	State Treasurer
Larry Martin ⁽¹⁾	(2)	Commissioner, Department of Finance and Administration
Austin McMullen	June 30, 2019	Member, Bradley Arant Boult Cummings LLP Nashville
Todd Skelton ⁽¹⁾	(2)	Deputy Counsel to the Governor
John K. Snodderly	June 30, 2019	Executive Director, LaFollette Housing Authority LaFollette
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Pieter J. van Vuuren	June 30, 2019	President & CEO, First National Bank of McMinnville McMinnville, TN
Justin Wilson ⁽¹⁾	January, 2019	Comptroller of the Treasury
Mary Mac R. Wilson	June 30, 2021	Director of Parish Operations, Roman Catholic Diocese of Knoxville, Knoxville, TN
Daisy Fields	(3)	Gallatin, TN

(1) Ex officio member.

(2) Serves at pleasure of the Governor.

(3) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 237 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Servicing since 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Administrative Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010).

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Conners & Berry (currently Bradley Arant Boulton Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999); Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the "State") amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

As of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ending June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees.

The TCRS covers three large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 58,683 active members in TCRS in the state and higher education employee group at June 30, 2016. This total includes 237 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age 60 or 30 years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute at 5% of salary to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age 65 or the rule of 90 (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan, requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute to TCRS 15.03% of salary for the period July 1, 2014 through June 30, 2016, based on the July 1, 2013 actuarial valuation. The June 30, 2015 actuarial valuation established the employer contribution rate of 15.02% that is applicable for the period July 1, 2016 through June 30, 2017. The recently completed June 30, 2016 actuarial valuation will establish employer contribution rates for the period July 1, 2017 through June 30, 2018. General state employees do not contribute to this plan.

An actuarial valuation was performed as of June 30, 2016 to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2016 (measurement date of June 30, 2015), the net pension liability for the state and higher education employee group based on the market value of assets was \$1.3 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 91.26%.

Actuarial Data for Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, the overall 4% employer contribution rate to TCRS for the period July 1, 2014 through June 30, 2016, consists of 3.87% for general employees, with the employer rate for judicial and public safety employees being higher at 7.00% and 4.62%, respectively. The employer contribution rate for general employees of 3.87% consists of 2.00% for the ADC and 1.87% for the stabilization reserve.

An actuarial valuation at June 30, 2015 established that the employer overall rate will remain at the minimum statutory level of 4%. For the period July 1, 2016 through June 30, 2017, the employer rate for general employees will be 3.94% while the employer rate for judicial and public safety employees will be 6.27% and 4.69%, respectively. The employer contribution rate for general employees of 3.94% consists of 1.13% for the ADC and 2.81% for the stabilization reserve.

THDA Employer Contributions to TCRS

For THDA, the employer contribution rate for employees hired before July 1, 2014, stated as a percentage of salary, is as follows: 15.03% for the period beginning July 1, 2014 through June 30, 2016 and 15.02% for the period beginning July 1, 2016 through June 30, 2017. For employees first hired after June 30, 2014, the employer rate is 8.87% for fiscal year ending June 30, 2016 and 8.94% for fiscal year ending June 30, 2017 (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions to TCRS are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	Percentage of THDA Budget
2017 ⁽¹⁾	15.02/9% ⁽²⁾	\$16,398,800 ⁽¹⁾⁽³⁾	\$2,340,940	2.03%
2016	15.03/9 ⁽²⁾	11,965,554	1,581,407	1.30
2015	15.03/9 ⁽²⁾	11,569,902	1,673,881	1.19
2014	15.03/9 ⁽²⁾	11,721,300	1,761,711	1.19
2013	15.03	11,315,872	1,692,847	1.26
2012	14.91	11,005,204	1,632,095	1.36
2011	14.91	10,593,944	1,585,654	1.25
2010	13.02	9,956,646	1,295,272	1.03
2009	13.02	9,267,262	1,201,303	0.98
2008	13.66	9,602,067	1,297,298	1.02

(1) Estimated

(2) Varies depending on plan the employee is enrolled in.

(3) The increase in "Total Salary of THDA Employees" from the actual amount for the fiscal year ending June 30, 2016, to the estimated amount for the fiscal year ending June 30, 2017, is due to the additional salaries for approximately thirty-eight (38) positions THDA expects to fill in connection with the servicing activities THDA expects to undertake later in 2017.

For the fiscal year ending June 30, 2016, the salary of THDA employees totaled \$11,965,554, which represents 0.45% of the \$2.677 billion of salary for all state and higher education employees in TCRS.

It is anticipated that there will be upward pressure on the employer contribution rate in the Closed State and Higher Education Employee Pension Plan in future actuarial valuations as deferred investment losses that have been actuarially smoothed are recognized over the next ten years as well as a continuing low earnings environment.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

General Information about the 401(k) and 457 Defined Contribution Plans

The state provides additional voluntary defined contribution plans to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Employee contribution limits to the 401(k) and 457 plans are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

For the fiscal year ended June 30, 2016, 173 THDA employees made contributions to the 401(k) plan and 10 THDA employees made contributions to the 457 plan. THDA made employer contributions to the 401(k) plan that totaled \$86,335 while THDA employees contributed a total of \$243,815 to the 401(k) plan and the 457 plan.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 43 and 45) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2015, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used a projected unit credit actuarial cost method, indicates that for the fiscal year ended June 30, 2017, the total unfunded actuarial liability of THDA is approximately \$2,923,000 and the annual required contribution for THDA is approximately \$353,000. The annual required contribution consists of the normal cost (the portion of the actuarial present value of OPEB benefits which is allocated to a valuation year by the actuarial cost method) and an amortization of the unfunded actuarial liability. The report may be reviewed at <http://www.tn.gov/finance/article/fa-accfin-opeb>. The State did not pre-fund any actuarially determined OPEB liability, and continued to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for fiscal year ended June 30, 2017. The State charged THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that interest on the Issue 2017-3Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a "Premium Bond") over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or otherwise prevent beneficial owners of the Issue 2017-3 Bonds from realizing the full current benefit of the tax status of such interest, or adversely affect the market value of the Issue 2017-3 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Issue 2017-3 Bonds. Purchasers of the Issue 2017-3 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Issue 2017-3 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation, regulatory initiatives or litigation.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and that Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

Due to the ongoing uncertainty regarding the economy of the United States of America (including, without limitation, matters such as the current and future political uncertainty regarding the United States debt limit), obligations, such as the Offered Bonds, issued by state and local governments, and instrumentalities thereof, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United

States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Offered Bonds. When certain automatic spending cuts are imposed on the federal government as a result of actions taken or not taken by the federal government (commonly referred to as a sequester) or when the federal government fails to pass certain spending authorizations prior to certain deadlines, resulting in a cessation of various governmental functions and operations (commonly referred to as a government shutdown), there may not be any immediate direct adverse impact on FHA, VA, RD or THDA. No assurance can be given, however, that a sequester or a government shutdown that lasts an extended period of time would continue to have no direct adverse impact upon the United States housing industry in general or THDA in particular.

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, THDA, in the Issue 2017-3 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2017-3 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MSRB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive

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

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2017-3 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2017-3 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2017-3 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2017-3 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MRSB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2016, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the nine months ended March 31, 2017. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors

have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

Raymond James & Associates, Inc., Citigroup Global Markets Inc., RBC Capital Markets, LLC, FTN Financial Capital Markets, J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and Wiley Bros.—Aintree Capital, LLC (collectively, the “Underwriters”) have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$626,443.57. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

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

Citigroup Global Markets Inc. (“Citigroup”), one of the underwriters of the Offered Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. (“UBSFS”). Under these distribution agreements, Citigroup may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup may compensate UBSFS for their selling efforts with respect to the Offered Bonds.

FTN Financial Capital Markets is a division of First Tennessee Bank National Association and FTB Advisors, Inc. is a wholly-owned subsidiary of First Tennessee Bank National Association. FTN Financial Capital Markets has entered into a distribution agreement with FTB Advisors, Inc. for the distribution of the Offered Bonds at the original issue prices. Such arrangement generally provides that FTN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with FTB Advisors, Inc.

J.P. Morgan Securities LLC (“JPMS”), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

Wells Fargo Bank, National Association, acting through its Municipal Products Group (“WFBNA”), one of the underwriters of the Offered Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Offered Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Offered Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Offered Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Kim Grant Brown

Chair

/s/ Ralph M. Perrey

Executive Director



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

APPENDIX A

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and the other postemployment benefits schedule of funding progress, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA
Director
December 19, 2016

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2016, with comparative information presented for the fiscal year ended June 30, 2015. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2016, THDA has originated over 115,000 single-family mortgage loans in its 43-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

More recently, THDA has administered programs under the American Recovery and Reinvestment Act of 2009 (ARRA), including the Homeless Prevention and Rapid Re-Housing Program (HPRP), the Tax Credit Assistance Program (TCAP), the Neighborhood Stabilization Program (NSP), and a Low Income Housing Tax Credit exchange program under Section 1602 of the Act.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated 13-23-105*). This board meets regularly on a bi-monthly basis; however, some committees may meet more often as situations dictate.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discretely presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <http://www.tn.gov/finance/article/fa-accfin-cafr>

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2016

- Total assets decreased by \$90.1 million, or 3.5%.
- Deferred outflows of resources increased \$0.5 million, or 18.4%.
- Total liabilities decreased by \$83.1 million, or 4.1%.
- Net position was \$510.9 million. This is a decrease of \$3.4 million, or 0.7%, from fiscal year 2015.
- Cash and cash equivalents decreased by \$69.3 million, or 23.0%.
- Total investments increased by \$18.4 Million, or 7.2%.
- Bonds payable decreased by \$72.7 million, or 3.67%.
- Deferred inflows of resources decreased \$3.0 million, which was related to pensions.
- THDA originated \$293.4 million in new loans, which is an increase of \$42.7 million, or 17.03%, from the prior year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

FINANCIAL ANALYSIS OF THE AGENCY

Net Position. The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	<u>2016</u>	<u>2015</u>
Current assets	\$ 393,675	\$ 442,792
Capital assets	1,175	512
Other noncurrent assets	<u>2,081,560</u>	<u>2,123,193</u>
Total assets	<u>2,476,410</u>	<u>2,566,497</u>
Deferred outflows of resources	<u>3,142</u>	<u>2,653</u>
Current liabilities	149,798	191,375
Noncurrent liabilities	<u>1,817,534</u>	<u>1,859,097</u>
Total liabilities	<u>1,967,332</u>	<u>2,050,472</u>
Deferred inflows of resources	<u>1,288</u>	<u>4,271</u>
Invested in capital assets	1,175	512
Restricted net position	430,114	441,196
Unrestricted net position	<u>79,643</u>	<u>72,699</u>
Total net position	<u><u>\$ 510,932</u></u>	<u><u>\$ 514,407</u></u>

2016 to 2015

- THDA's total net position decreased by \$3.4 million because operating income was less than the amount by which nonoperating expenses exceeded nonoperating revenues.
- First and Second mortgage loans (net of allowance for forgivable second mortgages) receivable decreased by \$10.8 million. During FY 2016, single-family mortgage loan originations increased by \$42.7 million, whereas mortgage loan payoffs increased by \$27.4 million and mortgage loan repayments decreased \$2.8 million. In addition, THDA recognized an allowance for future forgiveness of forgivable second mortgages of \$4.9 million for FY 2016.
- Total liabilities decreased \$83.1 million. The decrease is primarily due to a \$72.7 million decrease of bonds payable at June 30, 2016 as compared to June 30, 2015.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

Changes in Net Position. The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	<u>2016</u>	<u>2015</u>
Operating revenues		
Mortgage interest income	\$ 90,235	\$ 96,999
Investment income	5,872	6,535
Other	17,052	16,512
Total operating revenues	<u>113,159</u>	<u>120,046</u>
Operating expenses		
Interest expense	62,045	66,389
Other	41,916	43,932
Total operating expenses	<u>103,961</u>	<u>110,321</u>
Operating income	<u>9,198</u>	<u>9,725</u>
Nonoperating revenues (expenses)		
Grant revenues	269,226	307,012
Grant expenses	<u>(281,899)</u>	<u>(322,465)</u>
Total nonoperating revenues (expenses)	<u>(12,673)</u>	<u>(15,453)</u>
Change in net position	<u>\$ (3,475)</u>	<u>\$ (5,728)</u>

2016 to 2015

Total operating revenues decreased \$6.9 million, primarily due to a decrease in mortgage interest income of \$6.8 million. This is due to new mortgage loan originations having lower interest rates than those associated with mortgage loan repayments.

Total operating expenses decreased \$6.3 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

DEBT ACTIVITY

Bonds outstanding at June 30 were as follows (expressed in thousands):

	<u>2016</u>	<u>2015</u>
Bonds payable	\$1,906,494	\$ 1,979,170

Year Ended June 30, 2016

Total bonds and notes payable decreased \$72.7 million, due primarily to an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling \$306.9 million, with activity arising from two bond issues.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$67.1 million of outstanding bonds into new bond originations with lower interest rates.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard & Poor's Ratings Services (S&P), a division of the The McGraw-Hill Companies, Inc. has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during FY 2016 or FY 2015.

Debt Limits

In accordance with *Tennessee Code Annotated*, 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

GRANT PROGRAMS

During FY 2007 through FY 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors allocated additional THDA funds for grants. These funds established a grant program that was titled by the THDA as the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

	FY 2016	FY 2015	FY 2014 and Prior	Total
<i>Funding Sources:</i>				
THDA	\$ 7,500,000	\$ 7,500,000	\$ 52,300,000	\$ 67,300,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	\$ 7,500,000	\$ 7,500,000	\$ 56,650,000	\$ 71,650,000
<i>Approved Uses:</i>				
Rural repair program (USDA)	\$ -	\$ 700,000	\$ 5,600,000	\$ 6,300,000
Ramp Programs & Hsg Modification	-	150,000	1,200,000	1,350,000
Emergency Repairs	2,700,000	1,800,000	14,000,000	18,500,000
Competitive Grants	2,800,000	2,850,000	31,950,000	37,600,000
Rebuild & Recover	500,000	500,000	2,300,000	3,300,000
Other Grants	1,500,000	1,500,000	1,600,000	4,600,000
Totals	\$ 7,500,000	\$ 7,500,000	\$ 56,650,000	\$ 71,650,000

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the *Great Choice* and the *Great Choice Plus* loan programs were introduced and the *Great Rate*, *Great Advantage* and *Great Start* loan programs were eliminated. The *Great Choice* loan program offers THDA the opportunity to offer a more competitive interest rate on its 30 year fixed rate mortgage product while still offering down payment assistance with the addition of the *Great Choice Plus* loan program which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the *Great Choice Plus* loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15.

A special interest rate reduction on *Great Choice* loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as "*Homeownership for the Brave*", provides a 0.5% rate reduction on the current interest rate for *Great Choice* loans. In addition to the rate reduction, "*Homeownership for the Brave*" applicants are eligible for optional down payment and closing cost assistance through the *Great Choice Plus* second mortgage loan at a 0% interest rate.

All loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages (ARMs), interest-only mortgages, "buy-down" loans, mortgages with a future lump-sum payment due (balloon-type mortgage), or with other similar mortgage terms. THDA does not make or purchase "sub-prime" mortgage loans.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers, who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor's Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at <https://thda.org/homebuyers/homebuyers>

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2016, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

<u>Loan Status</u>	<u>Total Number of Loans Serviced</u>	<u>Number of Loans in Status</u>	<u>Principal Amount</u>	<u>Percentage</u>
60-89 Days Past Due	23,492	508	\$ 39,830,107	2.16%
90+ Days Past Due	23,492	1,503	116,348,733	6.40%
In Foreclosure	23,492	148	12,307,322	0.63%

Note: Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

ECONOMIC FACTORS

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, THDA uses the one-, three-, and five-year Constant Maturity Treasury (CMT) rates as established by the United States Treasury.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

The continuation of relatively low interest rates from a historic perspective increased the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Trent Ridley, Chief Financial Officer at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2016
(Expressed in Thousands)

ASSETS

Current assets:		
Cash and cash equivalents (Note 2)	\$	218,023
Investments (Note 2)		74,211
Receivables:		
Accounts		4,060
Interest		11,944
First mortgage loans		59,075
Due from federal government		26,361
Prepaid expenses		<u>1</u>
Total current assets		<u>393,675</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		13,647
Investments (Note 2)		157,864
Investment interest receivable		1,326
Investments (Note 2)		42,653
First mortgage loans receivable		1,849,432
Second mortgage loans receivable		21,326
Allowance for forgivable second mortgages		(7,808)
Advance to local government		3,107
Net pension asset (Note 6)		13
Capital assets:		
Furniture and equipment		2,631
Less accumulated depreciation		<u>(1,456)</u>
Total noncurrent assets		<u>2,082,735</u>
Total assets		<u>2,476,410</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refundings		981
Deferred outflows related to pensions (Note 6)		<u>2,161</u>
Total deferred outflows of resources		<u>3,142</u>

LIABILITIES

Current liabilities:		
Accounts payable		9,235
Accrued payroll and related liabilities		585
Compensated absences		633
Due to primary government		72
Interest payable		32,300
Escrow deposits		89
Prepayments on mortgage loans		1,161
Due to federal government		1,679
Bonds payable (Note 4)		100,360
Arbitrage rebate payable		<u>3,684</u>
Total current liabilities		<u>149,798</u>
Noncurrent liabilities:		
Bonds payable (Note 4)		1,806,134
Compensated absences		611
Net pension liability (Note 6)		5,429
Net OPEB obligation (Note 10)		1,602
Escrow deposits		3,348
Arbitrage rebate payable		<u>410</u>
Total noncurrent liabilities		<u>1,817,534</u>
Total liabilities		<u>1,967,332</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 6)		<u>1,288</u>
Total deferred inflows of resources		<u>1,288</u>

NET POSITION

Net investment in capital assets		1,175
Restricted for single family bond programs (Note 5 and Note 8)		417,331
Restricted for grant programs (Note 5)		9,617
Restricted for Homebuyers Revolving Loan Program (Note 5)		3,153
Restricted for net pension asset (Note 6)		13
Unrestricted (Note 8)		<u>79,643</u>
Total net position	\$	<u>510,932</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

OPERATING REVENUES

Mortgage interest income	\$ 90,235
Investment income:	
Interest	9,714
Net (decrease) in the fair value of investments	(3,842)
Federal grant administration fees	13,346
Fees and other income	3,706
Total operating revenues	<u>113,159</u>

OPERATING EXPENSES

Salaries and benefits	15,845
Contractual services	4,989
Materials and supplies	1,233
Rentals and insurance	18
Other administrative expenses	571
Other program expenses	9,683
Interest expense	62,045
Mortgage service fees	6,755
Issuance costs	2,311
Depreciation	511
Total operating expenses	<u>103,961</u>
Operating income	<u>9,198</u>

NONOPERATING REVENUES (EXPENSES)

Federal grants revenue	269,217
Other grants revenue	9
Federal grants expenses	(269,057)
Local grants expenses	(12,842)
Total nonoperating revenues (expenses)	<u>(12,673)</u>
Change in net position	<u>(3,475)</u>
Total net position, July 1	<u>514,407</u>
Total net position, June 30	<u>\$ 510,932</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 417,586
Receipts from federal government	12,862
Other miscellaneous receipts	3,706
Acquisition of mortgage loans	(293,475)
Payments to service mortgages	(6,755)
Payments to suppliers	(8,204)
Payments to or for employees	<u>(17,046)</u>
Net cash provided by operating activities	<u>108,674</u>
Cash flows from non-capital financing activities:	
Operating grants received	258,411
Proceeds from sale of bonds	306,902
Operating grants paid	(285,892)
Cost of issuance paid	(2,311)
Principal payments	(373,350)
Interest paid	<u>(68,299)</u>
Net cash used by non-capital financing activities	<u>(164,539)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(1,174)</u>
Net cash used by capital and related financing activities	<u>(1,174)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	332,627
Purchases of investments	(355,001)
Investment interest received	10,008
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	<u>87</u>
Net cash used by investing activities	<u>(12,279)</u>
Net decrease in cash and cash equivalents	(69,318)
Cash and cash equivalents, July 1	<u>300,988</u>
Cash and cash equivalents, June 30	\$ <u><u>231,670</u></u>

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ <u>9,198</u>
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Depreciation	511
Pension expense	566
Changes in assets and liabilities:	
Decrease in accounts receivable	25,537
Decrease in mortgage interest receivable	1,567
(Increase) in deferred pension outflows	(1,586)
Decrease in mortgage loans receivable	10,795
(Increase) in due from federal government	(484)
Increase in accounts payable	2,673
Increase in accrued payroll /	
compensated absences	121
Increase in due to primary government	1
Increase in arbitrage rebate liability	1,291
Investment income (loss) included as operating revenue	(5,872)
Interest expense included as operating expense	62,045
Issuance cost included as operating expense	<u>2,311</u>
Total adjustments	<u>99,476</u>
Net cash provided by operating activities	\$ <u><u>108,674</u></u>
Noncash investing, capital, and financing activities:	
Increase in fair value of investments	\$ <u>68</u>
Total noncash investing, capital, and financing activities	\$ <u><u>68</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cashflows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

d. Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, and Net Pension Assets (see note 6).

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

f. Deferred Amount on Refundings and Bond Premiums and Discounts

1. Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.
2. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

g. Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

h. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

i. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

j. Mortgages

Mortgages are carried at their original amount less collected principal.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

k. Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

l. Allowance for Forgivable Second Mortgages

THDA has offered Down Payment Assistance (DPA) product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage, loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period.

m. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2016, the bank balance was \$3,921,135.08. All bank balances at June 30, 2016, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2016, \$3,307,357.87 was in the BNYM. Of this amount, \$3,057,357.87 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

b. Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Investment Type	June 30, 2016	
	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$131,326,153	0.804
U.S. Treasury Coupon	68,451,345	0.143
U.S. Agency Discount	152,930,920	1.626
Total	<u>\$352,708,418</u>	0.731

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Fair Value Measurements THDA implemented GASB Statement 72 *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2016:

	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets by Fair Value Level	<i>(Thousands)</i>			
Debt securities				
U.S. Agency Coupon	\$131,326	\$-0-	\$131,326	\$-0-
U.S. Treasury Coupon	68,451	68,451	-0-	-0-
U.S. Agency Discount	152,931	-0-	152,931	-0-
Total debt securities	\$352,708	\$68,451	\$284,257	\$-0-

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets as those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets as those securities. Level 3 valuations are derived from valuation techniques in which significant inputs are unobservable.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Credit Risk Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2016, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

June 30, 2016					
Investment Type	Fair Value	U.S. Treasury ¹	AAA	AA+	Not Rated ²
U.S. Agency Coupon	\$131,326,153		\$2,615,164	128,710,989	
U.S. Treasury Coupon	68,451,345	\$68,451,345			
U.S. Agency Discount	152,930,920				152,930,920
Total	\$352,708,418	\$68,451,345	\$2,615,164	\$128,710,989	\$152,930,920

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

Issuer	June 30, 2016	
	<u>Fair Value</u> <u>(Thousands)</u>	<u>% of</u> <u>Portfolio</u>
Federal Home Loan Bank	\$180,760	51.25
Federal Home Loan Mortgage Corp	\$41,153	11.67
Federal National Mortgage Assoc.	\$59,729	16.93

New GASB 79 Disclosures During fiscal year 2016, Tennessee Housing Development Agency implemented *GASB Statement 79, Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that the Tennessee Housing Development Agency to participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of \$5 million or more.

¹This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

²This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 3. ACCOUNTING CHANGE

During fiscal year 2016, Tennessee Housing Development Agency modified the presentation of certain mortgage loans. Prior to fiscal year 2016, mortgage loans in which a foreclosure sale had occurred was reported as a component of Accounts Receivable. Beginning in fiscal year 2016, mortgage loans in which a foreclosure sale has occurred will be reported as Current Portion, First Mortgage Loans receivable.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING				
<i>(Thousands)</i>				
<i>Series</i>	<i>Maturity Range</i>	<i>Issued Amount</i>	<i>Interest Rate (Percent)</i>	<i>Ending Balance 6/30/2016</i>
HOMEOWNERSHIP PROGRAM BONDS				
2006-3	1/1/2008-7/1/2037	\$100,000	3.65 to 5.75	\$24,060
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	28,240
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	34,320
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	39,295
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	43,930
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	17,090
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	1,270
2009-1	1/1/2010-7/1/2029	50,000	0.75 to 5.00	21,330
2009-2	7/1/2010-7/1/2030	75,000	0.90 to 5.00	29,770
2010-1	1/1/2011-7/1/2025	120,700	0.35 to 4.50	53,775
2011-1	7/1/2012-7/1/2042	141,255	0.60 to 4.65	85,930
2012-1	1/1/2013-7/1/2042	133,110	0.80 to 4.50	85,660
2012-2	7/1/2013-7/1/2043	97,625	0.50 to 4.00	68,845
Total Homeownership Program Bonds		<u>\$1,387,690</u>		\$533,515
Plus: Unamortized Bond Premiums				4,444
Less: Unamortized Bond Discount				(42)
Net Homeownership Program Bonds				<u>\$537,917</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2016</u>
HOUSING FINANCE PROGRAM BONDS				
2009-A	1/1/2011-1/1/2040	\$100,000	0.90 to 4.625	\$14,725
2010-A	1/1/2011-7/1/2041	160,000	0.60 to 5.00	23,170
2010-B	7/1/2011-7/1/2041	100,000	0.45 to 4.50	60,835
2011-A	7/1/2011-7/1/2041	100,000	0.45 to 4.50	17,835
2011-B	7/1/2012-7/1/2041	100,000	0.25 to 4.50	64,995
2011-C	7/1/2012-7/1/2041	100,000	0.40 to 4.30	64,395
2015-A	1/1/2016-7/1/2045	150,000	0.30 to 3.85	143,050
Total Housing Finance Program Bonds		<u>\$810,000</u>		\$389,005
Plus: Unamortized Bond Premiums				4,409
Net Housing Finance Program Bonds				<u>\$393,414</u>

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2016</u>
RESIDENTIAL FINANCE PROGRAM BONDS				
2013-1	1/1/2014-7/1/2043	\$215,905	0.40 to 4.00	\$148,735
2013-2	7/1/2014-7/1/2043	121,300	0.45 to 4.65	94,435
2014-1	1/1/2015-7/1/2039	150,000	0.32 to 4.00	129,860
2014-2	7/1/2015-7-1-2045	150,000	0.25 to 4.00	135,780
2015-1	1/1/2016-7/1/2045	150,000	0.50 to 4.05	144,290
2015-2	7/1/2016-1/1/2046	175,000	0.40 to 4.00	175,000
2016-1	1/1/2017-1/1/2047	125,000	0.625 to 3.50	125,000
Total Residential Finance Program Bonds		<u>\$1,087,205</u>		\$953,100
Plus: Unamortized Bond Premiums				22,063
Net Residential Finance Program Bonds				<u>\$975,163</u>
Net Total All Issues				<u>\$1,906,494</u>

Housing Finance Program Bonds The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2016, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2017	\$36,555	\$65,913	\$102,468
2018	62,810	65,922	128,732
2019	65,295	64,018	129,313
2020	66,785	61,979	128,764
2021	71,065	59,768	130,833
2022 – 2026	369,900	260,532	630,432
2027 – 2031	343,540	194,038	537,578
2032 – 2036	367,480	125,252	492,732
2037 – 2041	325,135	60,915	386,050
2042 - 2046	167,055	13,778	180,833
Total	<u>\$1,875,620</u>	<u>\$972,115</u>	<u>\$2,847,735</u>

c. Redemption of Bonds and Notes

During the year ended June 30, 2016, bonds were retired at par before maturity in the Homeownership Program in the amount of \$70,935,000, in the Housing Finance Program in the amount of \$84,975,000, and in the Residential Finance Program in the amount of \$26,440,000. The respective carrying values of the bonds were \$71,940,410,

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

\$85,625,000 and \$27,205,277. This resulted in revenue to the Homeownership Program of \$1,005,410 to the Housing Finance Program of \$650,069, and to the Residential Finance Program of \$765,277.

On June 11, 2016, the agency issued \$150,000,000 in Residential Finance Program Bonds, Issue 2015-1. On January 1, 2016, the agency used \$27,395,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$27,395,000 early redemption). The carrying amount of these bonds was \$27,395,000. The refunding reduced the agency's debt service by \$12,273,421 over the next 20.0 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$4,089,664.

On October 15, 2015, the agency issued \$175,000,000 in Residential Finance Program Bonds, Issue 2015-2. On January 1, 2016, the agency used \$43,070,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$43,070,000 early redemption). The carrying amount of these bonds was \$43,184,624. The refunding reduced the agency's debt service by \$17,407,979 over the next 20.0 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$5,246,191.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2016.

Long-term Liabilities					
(Thousands)					
	Beginning Balance July 1, 2015	Additions	Reductions	Ending Balance June 30, 2016	Amounts Due Within One Year³
Bonds Payable	\$1,948,970	\$300,000	(\$373,350)	\$1,875,620	\$100,360
Plus: Unamortized Bond Premiums	30,333	6,897	(6,314)	30,916	-0-
Less: Unamortized Bond Discounts	(133)	-0-	91	(42)	-0-
Compensated Absences	1,207	129	(92)	1,244	633
Net Pension Liability	2,964	4,176	(1,711)	5,429	-0-
Escrow Deposits	2,553	2,322	(1,438)	3,437	89
Arbitrage Rebate Payable	2,803	1,291	(-0-)	4,094	3,684
Total	\$1,988,697	\$314,815	(\$382,814)	\$1,920,698	\$104,766

³Amounts due within one year include management authorized bond refundings at June 30.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 5. RESTRICTED NET POSITION

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

NOTE 6. PENSION PLANS

a. Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided Title 8, Chapters 34-37, *Tennessee Code Annotated* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%

Plus:

Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Tennessee Housing Development Agency employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Employee Pension Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2016 to the Closed State and Higher Education Employee Pension Plan were \$1,539,003 which is 15.03 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability At June 30, 2016, Tennessee Housing Development Agency reported a liability of \$5,428,475 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension liability was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2015 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015 measurement date, Tennessee Housing Development Agency's proportion was 0.421046 percent. The proportion measured as of June 30, 2014 was 0.429581

Pension expense For the year ended June 30, 2016, Tennessee Housing Development Agency recognized a pension expense of \$554,977. Allocated pension expense was \$583,722 before being reduced by \$28,745 due to a change in proportionate share.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2016, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 574,421	\$ 470,017
Net difference between projected and actual earnings on pension plan investments	—	697,846
Changes in proportion	—	114,978
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2015	1,539,003	—
Total	<u>\$ 2,113,424</u>	<u>\$ 1,282,841</u>

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of \$1,539,003 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2017	\$ (438,708.49)
2018	(438,708.49)
2019	(438,708.49)
2020	607,705.99
2021	-
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Actuarial assumptions The total pension liability as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	\$ 12,719,744	\$ 5,428,475	\$ (716,661)

Pension plan fiduciary net position Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2016, Tennessee Housing Development Agency reported a payable of \$128,363 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2016.

b. State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014 and covers employees hired before July 1, 2014. Employees hired after June 30, 2014 are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Benefits provided Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation by 1.0 percent multiplied by member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2016 to the State and Higher Education Employee Retirement Plan were \$46,706 which is 2.81 percent of covered payroll. The employer rate is 3.87% of covered payroll except for any salaries derived from Federal funds where the employer rate is 2.00%. The

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset At June 30, 2016, Tennessee Housing Development Agency reported an asset of \$12,713 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension asset was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2015 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015 measurement date, Tennessee Housing Development Agency's proportion was 0.457171 percent, representing the first time presentation of this proportion.

Pension expense For the year ended June 30, 2016, Tennessee Housing Development Agency (THDA) recognized a pension expense of \$10,546.

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2016, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ 4,730
Net difference between projected and actual earnings on pension plan investments	737	—
Tennessee Housing Development Agency's contributions subsequent to the measurement date of June 30, 2015	46,706	—
Total	<u>\$ 47,443</u>	<u>\$ 4,730</u>

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of \$46,706 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2017. Other

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2017	\$	(407)
2018		(407)
2019		(407)
2020		(407)
2021		(591)
Thereafter		(1,774)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions The total pension asset as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	\$ (4,995)	\$ (12,713)	\$ (18,490)

Payable to the Pension Plan

At June 30, 2016, THDA reported a payable of \$13,189 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

c. Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2016 for both defined benefit pension plans was \$565,523.

NOTE 7. DEFERRED COMPENSATION PLANS

The Tennessee Housing Development Agency, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to IRC, Section 457 and the other pursuant to IRC, Section 401(k). The plans are outsourced to third party vendors and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The Tennessee Housing Development Agency provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014 voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of *Public Acts of 2013*, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

The Tennessee Housing Development Agency recognized a pension expense of \$186,417 for employer contributions.

NOTE 8. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

NOTE 9. INSURANCE-RELATED ACTIVITIES

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b. Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property and crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2016, is presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2016, the Risk Management Fund held \$142.9 million in cash designated for payment of claims

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans - the State

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* Section 8-27-201. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. Any employee hired on or after July 1, 2015 is not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation - The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including the Tennessee Housing Development Agency (see Note 11). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy - The premium requirements of plan members of the State Employment Group Plan are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan, adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 25 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retirees 65 years of age or older are provided flat-rate premium subsidies, based on years of service. Retirees with 30 years of service receive \$50 per month; retirees with 25 but less than 30 years of service, \$37.50; and retirees with 15 but less than 20 years of service, \$25.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

THDA Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan
(Thousands)

June 30, 2016

Annual Required Contribution (ARC)	\$341
Interest on the Net OPEB Obligation	57
Adjustment to the ARC	(57)
Annual OPEB cost	341
Amount of contribution	(255)
Increase in Net OPEB Obligation	86
Net OPEB Obligation-beginning of year	1,516
Net OPEB Obligation-end of year	\$1,602

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost (Thousands)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation At Year End (Thousands)</u>
6/30/2016	State Employee Group Plan	\$ 341	74%	\$ 1,602
6/30/2015	State Employee Group Plan	\$ 357	71%	\$ 1,516
6/30/2014	State Employee Group Plan	\$ 346	68%	\$ 1,413

Funded Status and Funding Progress The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2015, was as follows (thousands):

Actuarial valuation date	7/01/2015
Actuarial accrued liability (AAL)	\$ 2,923
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	\$ 2,923
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 10,046
UAAL as a percentage of covered payroll	29%

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2015, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreases to 6% in fiscal year 2016, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

NOTE 11. ON-BEHALF PAYMENTS

During the year ended June 30, 2016, the State of Tennessee made payments of \$6,488 on behalf of THDA for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

NOTE 12. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

NOTE 13. SUBSEQUENT EVENTS

- a. Residential Finance Program Bonds, Issue 2016-3, were authorized by the Board of directors on September 20, 2016, not to exceed \$66,165,000. The sale of the Bonds will occur no later than December 31, 2016.
- b. Residential Finance Bonds, Issue 2016-2, were sold on October 18, 2016. The bond maturities are as follow:

BONDS ISSUED (Thousands)			
		Issued	Interest
<u>Series</u>	<u>Maturity Range</u>	<u>Amount</u>	<u>Rate</u> (Percent)
2016-2	7/1/2017-1/1/2047	\$125,000	0.720 to 3.500

- c. Residential Finance Bonds, Issue 2016-3, were sold on November 17, 2016. The bond maturities are as follow:

BONDS ISSUED (Thousands)			
		Issued	Interest
<u>Series</u>	<u>Maturity Range</u>	<u>Amount</u>	<u>Rate</u> (Percent)
2016-3	7/1/2017-7/1/2031	\$62,000	1.000 to 3.500

NOTE 14. EVENTS (UNAUDITED) SUBSEQUENT TO THE DATE OF THE INDEPENDENT AUDITOR'S REPORT

- a. Residential Finance Program Bonds, Issue 2017-1, were authorized by the Board of directors on January 24, 2017, not to exceed \$100,000,000. The sale of the Bonds will occur no later than June 30, 2017.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

- b.** Residential Finance Program Bonds, Issue 2017-2, were authorized by the Board of directors on March 28, 2017, not to exceed \$200,000,000. The sale of the Bonds will occur no later than September 30, 2017.
- c.** Residential Finance Bonds, Issue 2017-1, were sold on March 30, 2017. The bond maturities are as follow:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
<u>Series</u>	<u>Maturity Range</u>	<u>Amount</u>	<u>Rate</u>
			<u>(Percent)</u>
2017-1	1/1/2018-7/1/2042	\$100,000	0.950 to 4.000

- d.** Residential Finance Bonds, Issue 2017-2, were sold on June 27, 2017. The bond maturities are as follow:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
<u>Series</u>	<u>Maturity Range</u>	<u>Amount</u>	<u>Rate</u>
			<u>(Percent)</u>
2017-2	1/1/2018-1/1/2042	\$175,000	0.900 to 4.000

- e.** Residential Finance Program Bonds, Issue 2017-3, were authorized by the Board of directors on July 25, 2017, not to exceed \$100,000,000. The sale of the Bonds will occur no later than December 31, 2017.

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET
STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA;s Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
2016	0.457171%	\$ 13	498	2.60%	142.55%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.421046%	\$ 5,429	\$ 10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of informjamation is available

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
STATE AND HIGHER EDUCATION EMPLOYEE RETIREMENT PLAN
(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA;s Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2016	\$ 47	\$ 47	\$ -	\$ 1,661	2.81%
2015	19	19	-	498	3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2016	\$ 1,539	\$ 1,539	\$ -	\$ 10,240	15.03%
2015	1,652	1,652	-	10,994,	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%
2009	1,201	1,201	-	9,224	13.02%
2008	1,297	1,297	-	9,522	13.62%
2007	1,175	1,175	-	8,627	13.62%

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYEE BENEFITS SCHEDULE OF FUNDING PROGRESS
(Expressed in Thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2011	State Employee Group Plan	\$ -0-	\$ 2,919	\$ 2,919	0%	\$ 9,818	30%
7/1/2013	State Employee Group Plan	\$ -0-	\$ 2,964	\$ 2,964	0%	\$ 9,841	30%
7/1/2015	State Employee Group Plan	\$ -0-	\$ 2,923	\$ 2,923	0%	\$10,046	29%

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2016
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,897	\$ 11,071	\$ 78,576	\$ 31,284	\$ 94,195	\$ 218,023
Investments	-	6,594	10,594	9,395	47,628	74,211
Receivables:						
Accounts	232	359	2,235	537	697	4,060
Interest	-	29	4,522	3,021	4,372	11,944
First mortgage loans	-	1,949	23,393	9,990	23,743	59,075
Due from federal government	26,361	-	-	-	-	26,361
Due from other funds	2,189	-	-	-	-	2,189
Prepaid expenses	1	-	-	-	-	1
Total current assets	31,680	20,002	119,320	54,227	170,635	395,864
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	3,299	-	4,278	3,443	2,627	13,647
Investments	-	-	105,430	17,991	34,443	157,864
Investment Interest receivable	-	-	1,186	33	107	1,326
Investments	-	7,474	501	1,799	32,879	42,653
First mortgage loans receivable	717	46,066	562,052	372,924	867,673	1,849,432
Second mortgage loans receivable	-	-	21,326	-	-	21,326
Allowance for forgivable second mortgage	-	-	(7,808)	-	-	(7,808)
Advance to local government	3,107	-	-	-	-	3,107
Net pension asset	13	-	-	-	-	13
Capital assets:						
Furniture and equipment	2,631	-	-	-	-	2,631
Less accumulated depreciation	(1,456)	-	-	-	-	(1,456)
Total noncurrent assets	8,311	53,540	686,965	396,190	937,729	2,082,735
Total assets	39,991	73,542	806,285	450,417	1,108,364	2,478,599
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	759	981
Deferred outflows related to pensions	2,161	-	-	-	-	2,161
Total deferred outflows of resources	2,161	-	222	-	759	3,142
LIABILITIES						
Current liabilities:						
Accounts payable	9,217	2	12	-	4	9,235
Accrued payroll and related liabilities	585	-	-	-	-	585
Investments purchased	-	-	-	-	-	-
Compensated absences	633	-	-	-	-	633
Due to primary government	72	-	-	-	-	72
Interest payable	-	-	11,236	6,596	14,468	32,300
Escrow deposits	-	89	-	-	-	89
Prepayments on mortgage loans	-	-	399	196	566	1,161
Due to federal government	1,679	-	-	-	-	1,679
Due to other funds	-	-	2,065	-	124	2,189
Bonds payable	-	-	52,870	17,295	30,195	100,360
Arbitrage rebate payable	-	-	3,684	-	-	3,684
Total current liabilities	12,186	91	70,266	24,087	45,357	151,987
Noncurrent liabilities:						
Bonds payable	-	-	485,047	376,119	944,968	1,806,134
Compensated absences	611	-	-	-	-	611
Net pension liability	5,429	-	-	-	-	5,429
Net OPEB obligation	1,602	-	-	-	-	1,602
Escrow deposits	336	509	-	-	2,503	3,348
Arbitrage rebate payable	-	-	410	-	-	410
Total noncurrent liabilities	7,978	509	485,457	376,119	947,471	1,817,534
Total liabilities	20,164	600	555,723	400,206	992,828	1,969,521
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	1,288	-	-	-	-	1,288
Total deferred inflows of resources	1,288	-	-	-	-	1,288
NET POSITION						
Net investment in capital assets	1,175	-	-	-	-	1,175
Restricted for single family bond programs	-	41	250,784	50,211	116,295	417,331
Restricted for grant programs	-	9,617	-	-	-	9,617
Restricted for Homebuyers Revolving Loan	3,153	-	-	-	-	3,153
Restricted for net pension asset	13	-	-	-	-	13
Unrestricted	16,359	63,284	-	-	-	79,643
Total net position	\$ 20,700	\$ 72,942	\$ 250,784	\$ 50,211	\$ 116,295	\$ 510,932

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ 11	\$ 51	\$ 34,588	\$ 19,159	\$ 36,426	\$ 90,235
Investment income:						
Interest	38	200	6,847	618	2,011	9,714
Net increase (decrease) in the fair value of investments	-	(129)	(3,519)	126	(320)	(3,842)
Federal grant administration fees	13,346	-	-	-	-	13,346
Fees and other income	2,753	-	-	-	953	3,706
Total operating revenues	16,148	122	37,916	19,903	39,070	113,159
OPERATING EXPENSES						
Salaries and benefits	15,845	-	-	-	-	15,845
Contractual services	4,976	-	-	-	13	4,989
Materials and supplies	1,233	-	-	-	-	1,233
Rentals and insurance	18	-	-	-	-	18
Other administrative expenses	571	-	-	-	-	571
Other program expenses	323	65	7,993	158	1,144	9,683
Interest expense	-	-	23,713	13,456	24,876	62,045
Mortgage service fees	-	92	2,260	1,436	2,967	6,755
Issuance costs	-	-	-	-	2,311	2,311
Depreciation	511	-	-	-	-	511
Total operating expenses	23,477	157	33,966	15,050	31,311	103,961
Operating income (loss)	(7,329)	(35)	3,950	4,853	7,759	9,198
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	269,217	-	-	-	-	269,217
Other grant revenue	-	9	-	-	-	9
Federal grants expenses	(269,057)	-	-	-	-	(269,057)
Local grants expenses	(12,842)	-	-	-	-	(12,842)
Total nonoperating revenues (expenses)	(12,682)	9	-	-	-	(12,673)
Income (loss) before transfers	(20,011)	(26)	3,950	4,853	7,759	(3,475)
Transfers (to) other funds	-	-	(42,180)	-	-	(42,180)
Transfers from other funds	19,351	6,517	-	8,831	7,481	42,180
Change in net position	(660)	6,491	(38,230)	13,684	15,240	(3,475)
Total net position, July 1	21,360	66,451	289,014	36,527	101,055	514,407
Total net position, June 30	\$ 20,700	\$ 72,942	\$ 250,784	\$ 50,211	\$ 116,295	\$ 510,932

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ -	\$ 3,210	\$ 211,158	\$ 92,903	\$ 110,315	\$ 417,586
Receipts from federal government	12,862	-	-	-	-	12,862
Receipts from other funds	1,299	-	-	-	-	1,299
Other miscellaneous receipts	2,753	-	-	-	953	3,706
Acquisition of mortgage loans	-	(2,627)	(16,894)	-	(273,954)	(293,475)
Payments to service mortgages	-	(92)	(2,260)	(1,436)	(2,967)	(6,755)
Payments to suppliers	(4,980)	(65)	(1,800)	(179)	(1,180)	(8,204)
Payments to other funds	-	-	-	-	(1,299)	(1,299)
Payments to or for employees	(17,046)	-	-	-	-	(17,046)
Net cash provided (used) by operating activities	(5,112)	426	190,204	91,288	(168,132)	108,674
Cash flows from non-capital financing activities:						
Operating grants received	258,403	8	-	-	-	258,411
Transfers in (out)	19,351	6,517	4,178	8,831	(38,877)	-
Proceeds from sale of bonds	-	-	-	-	306,902	306,902
Operating grants paid	(285,892)	-	-	-	-	(285,892)
Cost of issuance paid	-	-	-	-	(2,311)	(2,311)
Principal payments	-	-	(210,520)	(85,445)	(77,385)	(373,350)
Interest paid	-	-	(30,732)	(13,674)	(23,893)	(68,299)
Net cash provided (used) by non-capital financing activities	(8,138)	6,525	(237,074)	(90,288)	164,436	(164,539)
Cash flows from capital and related financing activities:						
Purchases of capital assets	(1,174)	-	-	-	-	(1,174)
Net cash used by capital and related financing activities	(1,174)	-	-	-	-	(1,174)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	18,199	153,221	33,007	200,972	405,399
Purchases of investments	-	(27,712)	(137,209)	(40,381)	(222,471)	(427,773)
Investment interest received	38	205	7,057	685	2,023	10,008
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	39	18	30	87
Net cash provided (used) by investing activities	38	(9,308)	23,108	(6,671)	(19,446)	(12,279)
Net decrease in cash and cash equivalents	(14,386)	(2,357)	(23,762)	(5,671)	(23,142)	(69,318)
Cash and cash equivalents, July 1	20,582	13,428	106,616	40,398	119,964	300,988
Cash and cash equivalents, June 30	\$ 6,196	\$ 11,071	\$ 82,854	\$ 34,727	\$ 96,822	\$ 231,670

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (7,329)	\$ (35)	\$ 3,950	\$ 4,853	\$ 7,759	\$ 9,198
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	511	-	-	-	-	511
Pension expense	566	-	-	-	-	566
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(229)	85	13,102	9,722	2,857	25,537
(Increase) decrease in mortgage interest receivable	21	25	1,723	578	(780)	1,567
(Increase) in deferred pension outflows	(1,586)	-	-	-	-	(1,586)
(Increase) decrease in mortgage loans receivable	133	395	149,884	63,483	(203,100)	10,795
(Increase) in due from federal government	(484)	-	-	-	-	(484)
Decrease in interfund receivables	1,299	-	-	-	-	1,299
(Decrease) in interfund payables	-	-	-	-	(1,299)	(1,299)
Increase (decrease) in accounts payable	1,902	27	(131)	(60)	935	2,673
Increase in accrued payroll / compensated absences	121	-	-	-	-	121
Increase in due to primary government	1	-	-	-	-	1
Increase in arbitrage rebate liability	-	-	1,291	-	-	1,291
Investment income included as operating revenue	(38)	(71)	(3,328)	(744)	(1,691)	(5,872)
Interest expense included as operating expense	-	-	23,713	13,456	24,876	62,045
Issuance cost included as operating expense	-	-	-	-	2,311	2,311
Total adjustments	<u>2,217</u>	<u>461</u>	<u>186,254</u>	<u>86,435</u>	<u>(175,891)</u>	<u>99,476</u>
Net cash provided (used) by operating activities	\$ <u>(5,112)</u>	\$ <u>426</u>	\$ <u>190,204</u>	\$ <u>91,288</u>	\$ <u>(168,132)</u>	\$ <u>108,674</u>
Noncash investing, capital, and financing activities:						
Increase (decrease) in fair value of investments	\$ -	\$ 6	\$ 559	\$ (220)	\$ (277)	\$ 68
Total noncash investing, capital, and financing activities	\$ <u>-</u>	\$ <u>6</u>	\$ <u>559</u>	\$ <u>(220)</u>	\$ <u>(277)</u>	\$ <u>68</u>

***UNAUDITED FINANCIAL
INFORMATION***

March 31, 2017

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

	March 31, 2017					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2017
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,253	\$ 10,095	\$ 35,290	\$ 29,479	\$ 118,275	\$ 194,392
Investments	-	-	9,910	3,064	29,669	42,643
Receivables:						
Accounts	-	368	-	-	24	392
Interest	-	42	3,095	2,658	5,988	11,783
First mortgage loans	156	2,048	19,384	9,620	30,834	62,042
Due from federal government	21,573	-	-	-	-	21,573
Due from other funds	1,679	-	-	-	400	2,079
Prepaid Expenses	1	-	-	-	-	1
Total current assets	24,662	12,553	67,679	44,821	185,190	334,905
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	16,891	-	15,725	65	5,755	38,436
Investments	-	-	88,896	21,015	37,625	147,536
Investment interest receivable	-	-	1,238	103	186	1,527
Investments	-	8,601	-	1,192	32,647	42,440
First mortgage loans receivable	547	47,325	382,877	325,805	1,083,176	1,839,730
Second mortgage loans receivable	-	-	28,781	-	-	28,781
Allowance for forgivable second mortgages	-	-	(10,814)	-	-	(10,814)
Advance to local government	3,121	-	-	-	-	3,121
Net pension asset	13	-	-	-	-	13
Capital assets:						
Furniture and equipment	2,631	-	-	-	-	2,631
Less accumulated depreciation	(1,456)	-	-	-	-	(1,456)
Total noncurrent assets	21,747	55,926	506,703	348,180	1,159,389	2,091,945
Total assets	46,409	68,479	574,382	393,001	1,344,579	2,426,850
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	565	787
Deferred outflows related to pensions	2,161	-	-	-	-	2,161
Total deferred outflows of resources	2,161	-	222	-	565	2,948
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 4,381	\$ 2	\$ 1,002	\$ 1,081	\$ -	\$ 6,466
Accrued payroll and related liabilities	2,906	-	-	-	-	2,906
Compensated absences	633	-	-	-	-	633
Interest payable	-	-	3,437	2,818	8,833	15,088
Escrow deposits	-	68	-	-	-	68
Prepayments on mortgage loans	10	-	290	198	867	1,365
Due to federal government	13,444	-	-	-	-	13,444
Due to other funds	-	-	2,079	-	-	2,079
Bonds payable	-	-	29,570	13,795	39,310	82,675
Total current liabilities	21,374	70	36,378	17,892	49,010	124,724
Noncurrent liabilities:						
Bonds payable	-	-	317,041	321,603	1,141,168	1,779,812
Compensated absences	611	-	-	-	-	611
Net pension liability	5,429	-	-	-	-	5,429
Net OPEB obligation	1,602	-	-	-	-	1,602
Escrow deposits	1,299	464	-	-	3,100	4,863
Arbitrage rebate payable	-	-	409	-	-	409
Total noncurrent liabilities	8,941	464	317,450	321,603	1,144,268	1,792,726
Total liabilities	30,315	534	353,828	339,495	1,193,278	1,917,450
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	1,288	-	-	-	-	1,288
Total deferred inflows of resources	1,288	-	-	-	-	1,288
NET POSITION						
Net investment in capital assets	1,175	-	-	-	-	1,175
Restricted for single family bond programs	-	-	220,776	53,506	151,866	426,148
Restricted for grant programs	-	11,594	-	-	-	11,594
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Unrestricted	12,639	56,351	-	-	-	68,990
Total net position	\$ 16,967	\$ 67,945	\$ 220,776	\$ 53,506	\$ 151,866	\$ 511,060

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2017

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2017
OPERATING REVENUES						
Mortgage interest income	\$ -	\$ 48	\$ 18,086	\$ 12,425	\$ 35,830	\$ 66,389
Investment income:						
Interest	41	89	3,859	455	1,162	5,606
Net increase (decrease) in the fair value of investments	-	(9)	(4,004)	(403)	(938)	(5,354)
Federal grant administration fees	10,031	-	-	-	-	10,031
Fees and other income	3,068	-	-	-	888	3,956
Total operating revenues	13,140	128	17,941	12,477	36,942	80,628
OPERATING EXPENSES						
Salaries and benefits	13,821	-	-	-	-	13,821
Contractual services	3,627	-	-	-	-	3,627
Materials and supplies	734	-	-	-	-	734
Rentals and insurance	23	-	-	-	-	23
Other administrative expenses	463	-	-	-	-	463
Other program expenses	253	1	3,455	186	466	4,361
Interest expense	10	-	12,399	8,387	22,224	43,020
Mortgage service fees	-	75	1,011	921	2,809	4,816
Issuance costs	-	-	-	-	2,322	2,322
Total operating expenses	18,931	76	16,865	9,494	27,821	73,187
Operating income (loss)	(5,791)	52	1,076	2,983	9,121	7,441
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	195,416	-	-	-	-	195,416
Other grant revenue	-	4	-	-	-	4
Federal grants expenses	(195,297)	-	-	-	-	(195,297)
Local grants expenses	(7,436)	-	-	-	-	(7,436)
Total nonoperating revenues (expenses)	(7,317)	4	-	-	-	(7,313)
Income (loss) before transfers	(13,108)	56	1,076	2,983	9,121	128
Transfers (to) other funds	-	(5,053)	(31,084)	-	-	(36,137)
Transfers from other funds	9,375	-	-	312	26,450	36,137
Change in net position	(3,733)	(4,997)	(30,008)	3,295	35,571	128
Total net position, July 1	20,700	72,942	250,784	50,211	116,295	510,932
Total net position, End of period	\$ 16,967	\$ 67,945	\$ 220,776	\$ 53,506	\$ 151,866	\$ 511,060

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2017

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2017
Cash flows from operating activities:						
Receipts from customers	\$ 1,195	\$ 2,344	\$ 91,569	\$ 61,708	\$ 125,703	\$ 282,519
Receipts from federal government	10,007	-	-	-	-	10,007
Receipts from other funds	510	-	14	-	-	524
Other miscellaneous receipts	3,068	-	-	-	888	3,956
Acquisition of mortgage loans	-	(3,730)	(8,213)	-	(197,951)	(209,894)
Payments to service mortgages	-	(75)	(1,011)	(921)	(2,809)	(4,816)
Payments to suppliers	(4,733)	(1)	-	-	(470)	(5,204)
Payments to federal government	-	-	(3,685)	-	-	(3,685)
Payments to other funds	-	-	-	-	(524)	(524)
Payments to or for employees	(11,743)	-	-	-	-	(11,743)
Net cash provided (used) by operating activities	(1,696)	(1,462)	78,674	60,787	(75,163)	61,140
Cash flows from non-capital financing activities:						
Operating grants received	211,993	4	-	-	-	211,997
Transfers in (out)	9,375	(5,053)	83,204	312	(87,838)	-
Proceeds from sale of bonds	-	-	-	-	294,588	294,588
Operating grants paid	(207,765)	-	-	-	-	(207,765)
Call premium paid	-	-	-	-	(36)	(36)
Cost of issuance paid	-	-	-	-	(2,322)	(2,322)
Principal payments	-	-	(189,990)	(57,330)	(86,520)	(333,840)
Interest paid	-	-	(21,252)	(12,850)	(30,643)	(64,745)
Net cash provided (used) by non-capital financing activities	13,603	(5,049)	(128,038)	(69,868)	87,229	(102,123)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	27,940	119,511	30,049	127,845	305,345
Purchases of investments	-	(22,486)	(105,830)	(26,556)	(113,818)	(268,690)
Investment interest received	41	77	3,811	387	1,071	5,387
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	4	33	18	44	99
Net cash provided by investing activities	41	5,535	17,525	3,898	15,142	42,141
Net increase (decrease) in cash and cash equivalents	11,948	(976)	(31,839)	(5,183)	27,208	1,158
Cash and cash equivalents, July 1	6,196	11,071	82,854	34,727	96,822	231,670
Cash and cash equivalents, End of period	\$ 18,144	\$ 10,095	\$ 51,015	\$ 29,544	\$ 124,030	\$ 232,828

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2017

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2017
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (5,791)	\$ 52	\$ 1,076	\$ 2,983	\$ 9,121	\$ 7,441
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	232	(9)	2,235	537	673	3,668
(Increase) decrease in mortgage interest receivable	-	(1)	1,422	360	(1,603)	178
(Increase) decrease in mortgage loans receivable	-	(1,358)	64,187	47,489	(108,046)	2,272
(Increase) in due from federal government	(24)	-	-	-	-	(24)
Decrease in interfund receivables	510	-	14	-	-	524
(Decrease) in interfund payables	-	-	-	-	(524)	(524)
Increase (decrease) in accounts payable	1,169	(66)	881	1,083	894	3,961
(Decrease) in arbitrage rebate payable	-	-	(3,685)	-	-	(3,685)
Increase in accrued payroll / compensated absences	2,321	-	-	-	-	2,321
(Decrease) in due to primary government	(72)	-	-	-	-	(72)
Investment income included as operating revenue	(41)	(80)	145	(52)	(224)	(252)
Interest expense included as operating expense	-	-	12,399	8,387	22,224	43,010
Issuance cost included as operating expense	-	-	-	-	2,322	2,322
Total adjustments	4,095	(1,514)	77,598	57,804	(84,284)	53,699
Net cash provided (used) by operating activities	\$ (1,696)	\$ (1,462)	\$ 78,674	\$ 60,787	\$ (75,163)	\$ 61,140
Noncash investing, capital, and financing activities:						
Increase (decrease) in fair value of investments	-	1	(3,643)	(334)	(757)	(4,733)
Total noncash investing, capital, and financing activities	\$ -	\$ 1	\$ (3,643)	\$ (334)	\$ (757)	\$ (4,733)

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS AND SERVICERS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the "Working Agreements"). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA's security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA's rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent's privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the "O. A. Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA currently has an agreement with U.S. Bank (the "Servicer") to service Program Loans (the "Servicing Agreement"). U.S. Bank services approximately 90% of THDA's entire portfolio of mortgage loans made or purchased with bond proceeds. The Servicing Agreement provides for the collection and remittance of Program Loan payments to THDA or a designated depository. Prior to remittance, the Servicer deducts a servicing fee, late charges and amounts to be held in escrow accounts for real property taxes, mortgage and hazard insurance premiums, and assessments. The servicing fee under the current Servicing Agreement is 3/8% annually. The Servicer is required to notify THDA in the event of any default on a Program Loan, and the Servicer may conduct foreclosure proceedings with the consent and at the expense of THDA. The Servicer is required to repurchase any Program Loan from THDA at any time THDA

suffers or is threatened with a material loss by reason of the Servicer's failure to perform its obligations under the Servicing Agreement. THDA may also terminate a Servicing Agreement for inadequate performance by the Servicer.

THDA began self-servicing the mortgage loan portfolio previously serviced by Pinnacle Bank through a division of THDA called Volunteer Mortgage Loan Servicing ("VMLS"). VMLS began servicing the former Pinnacle Bank portion of the THDA mortgage loan portfolio as of November 1, 2016. THDA began servicing new production loans from its largest Originating Agent on June 1, 2017. THDA provided notice to all Originating Agents about delivering new THDA loans to VMLS for servicing in accordance with a schedule that THDA anticipates will result in all new THDA loans being serviced by THDA on or about April 1, 2018. THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

Guide for Servicers

THDA provides each Servicer with a Guide for Servicers (the "Servicer Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax requirements. The Servicer Guide includes substantive servicing requirements, incorporates the limitation on assumption of mortgages contained in the federal tax code, and specifies the procedures to be followed by the Servicer to comply with THDA requirements and the federal tax code. The Servicer Guide also includes a list of the documents that must be maintained by the Servicer, copies of all THDA's servicing and loan assumption forms, together with instructions for their completion and a schedule for the submission of the required forms and reports to THDA.

THDA requires monthly reports from Servicers. Each Servicer's performance is monitored and its servicing record is subject to examination by THDA's staff. Examinations are performed monthly from documentation received from the Servicer.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the “General Residential Finance Program Bond Resolution.”

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

“*Account*” means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

“*Accountant*” means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

“*Act*” means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

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

“*Authorized Officer*” means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

“*Bond*” or “*Bonds*” means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

“*Bond Counsel's Opinion*” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

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

“*Bond Reserve Fund*” means the Bond Reserve Fund established pursuant to Section 5.1.

“*Bond Reserve Fund Requirement*” means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

“*Code*” means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

- (1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;
- (2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

"Program Security" means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

"Projected Cash Flow Statement" means a Certificate delivered pursuant to the provisions of Section 7.11.

"Rating Agency" means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody's and S&P.

"Redemption Account" means the Redemption Account which is established and created in the Revenue Fund pursuant to this Resolution.

"Redemption Date" means the date upon which Bonds are to be called for redemption pursuant to this Resolution.

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

"Refunding Bond" means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

"Resolution" means this Resolution and any amendments or supplements made in accordance with its terms.

"Revenue Fund" means the Revenue Fund established pursuant to Section 5.1.

"Revenues" means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

"S&P" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, and any successor.

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

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

"State" means the State of Tennessee.

"Supplemental Resolution" means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

"THDA" means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

"Trustee" means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI
REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

- (1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or
- (2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or
- (3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

- (1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;
- (2) by bringing suit upon the Bonds;
- (3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of or Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$823,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Amount Outstanding as of June 30, 2017 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A	December 23, 2009	\$ 100,000,000	\$ --	\$ 11,265,000	3.96%
2010-A/ 2009-B, Subseries B-1	June 17, 2010	74,710,000	85,290,000	16,840,000	3.85
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	49,435,000	3.15
2011-A/ 2009-B, Subseries B-3	April 14, 2011	40,000,000	60,000,000	14,900,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	54,985,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,850,000	34,710,000	52,385,000	3.01
Issue 2015-A	May 28, 2015	<u>163,850,000</u>	--	<u>118,405,000</u>	2.78
TOTAL		<u>\$ 523,850,000</u>	<u>\$ 300,000,000</u>	<u>\$ 318,215,000</u>	

(1) Bond yield.

As of June 30, 2017 (unaudited), 3,439 mortgage loans in the approximate aggregate principal amount of \$296,968,747 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$827,690,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of June 30, 2017 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2007-4	October 30, 2007	\$ 150,000,000	\$ 23,110,000	4.79
2008-1	May 29, 2008	60,000,000	12,920,000	4.93
2009-1	June 11, 2009	50,000,000	17,060,000	4.39
2009-2	September 30, 2009	75,000,000	22,125,000	4.06
2010-1	October 13, 2010	120,700,000	43,110,000	3.57
2011-1	December 1, 2011	141,255,000	77,430,000	3.80
2012-1	July 19, 2012	133,110,000	71,785,000	3.26
2012-2	November 15, 2012	97,625,000	55,795,000	2.92
TOTAL		<u>\$ 827,690,000</u>	<u>\$ 323,335,000</u>	

(1) Bond yield.

As of June 30, 2017 (unaudited), 5,952 mortgage loans in the approximate aggregate principal amount of \$321,766,061 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets relating to bond proceeds, including mortgage loans, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution. Certain assets and investments not related to bond proceeds remain in the General Fund of the 1974 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. THDA established eligibility requirements for the mortgage credit certificate program and loans assisted with a mortgage credit certificate may not be funded with proceeds of qualified mortgage bonds such as the Issue 2017-3 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets, other than its mortgage assets (the “non-mortgage assets”). These non-mortgage assets are invested only in investments authorized by the Act, THDA’s investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA’s investment of THDA non-mortgage assets to the Executive Director of THDA.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bonds certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds certificates will be printed and delivered.

RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES

General

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2017-3 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

THDA's current income limits range from \$57,480 to \$96,180 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

U.S. Bank currently services approximately 90% of THDA's mortgage loan portfolio. THDA began self-servicing the mortgage loan portfolio previously serviced by Pinnacle Bank through a division of THDA called Volunteer Mortgage Loan Servicing ("VMLS"). VMLS began servicing the former Pinnacle Bank portion of the THDA mortgage loan portfolio as of November 1, 2016. THDA began servicing new production loans from its largest Originating Agent on June 1, 2017. THDA provided notice to all Originating Agents about delivering new THDA loans to VMLS for servicing in accordance with a schedule that THDA anticipates will result in all new THDA loans being serviced by THDA on or about April 1, 2018. THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

THDA requires regular reports from Servicers updating the total number of Program Loans serviced and providing certain information for each Program Loan including, without limitation, delinquency and foreclosure data. THDA's agreements with Servicers (the "Servicing Agreements") provide for the collection and remittance of Program Loan payments to THDA or a designated depository. The Servicers' records relating to serviced Program Loans are subject to examination by THDA's Single Family and Internal Audit Divisions.

THDA provides each Servicer with a Guide for Servicers which sets forth complete requirements and procedures for servicing Program Loans. THDA may terminate any Servicing Agreement when there is inadequate performance by the Servicer. THDA may also require that a Servicer purchase any Program Loan from THDA at any time THDA suffers or is threatened with a material loss by reason of a Servicer's failure to perform its obligations with respect to the Program Loans under the Servicing Agreement. For information about Servicing Agreements and substantive requirements relating to servicing Program Loans, see Appendix C.

September 28, 2017

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$99,900,000 Issue 2017-3 (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$99,900,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2017-3 (Non-AMT) (the "Issue 2017-3 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2017-3 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on July 25, 2017, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on August 23, 2017 (together, the "Supplemental Resolution," and together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2017-3 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2017-3 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2017-3 Bonds are being issued to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2017-3 Bonds in order that interest on the Issue 2017-3 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2017-3 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.
2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.

3. The Issue 2017-3 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2017-3 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2017-3 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.

6. The Issue 2017-3 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.

7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2017-3 Bonds is excluded from gross income of the owners thereof for federal income tax purposes; (ii) interest on the Issue 2017-3 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on the Issue 2017-3 Bonds will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2017-3 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2017-3 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2017-3 Bonds may have to take interest on such Issue 2017-3 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2017-3 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2017-3 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2017-3 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES**Delinquencies and Foreclosures as of March 31, 2017*

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.09%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	114	\$ 10,187,275	1.14%	0.98% ⁽⁴⁾
VA Guaranteed	1	17,443	0.40	0.59
Privately Insured	7	613,914	0.89	0.63
USDA/RD Guaranteed.....	8	587,777	1.09	(5)
Uninsured.....	2	126,407	0.51	(5)
TOTAL	<u>132</u>	<u>\$ 11,532,816⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.04%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	492	\$ 42,478,597	4.93%	1.90% ⁽⁴⁾
VA Guaranteed	19	1,183,231	7.54	1.21
Privately Insured	49	3,494,152	6.23	1.22
USDA/RD Guaranteed.....	38	2,671,286	5.18	(5)
Uninsured.....	14	798,014	3.54	(5)
TOTAL	<u>612</u>	<u>\$ 50,625,281⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bond issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding loans financed pursuant to the 1974 General Resolution that were transferred to the General Resolution as of June 30, 2014.

The overall rate of Program Loans in foreclosure was 0.74%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2017, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	77	\$ 7,804,398	0.77%	0.59% ⁽⁴⁾
VA Guaranteed	3	376,556	1.19	0.90
Privately Insured	5	483,014	0.64	0.46
USDA/RD Guaranteed.....	5	376,443	0.68	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>90</u>	<u>\$ 9,040,411</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of December 31, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.92%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	182	\$16,994,592	1.92%	1.43% ⁽⁴⁾
VA Guaranteed	8	588,835	3.19	0.81
Privately Insured	14	1,080,351	1.72	0.50
USDA/RD Guaranteed.....	17	1,222,844	2.35	(5)
Uninsured.....	<u>3</u>	<u>146,440</u>	0.75	(5)
TOTAL	<u>224</u>	<u>20,033,063</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.25%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	489	\$41,481,830	5.16%	2.31% ⁽⁴⁾
VA Guaranteed	14	1,069,711	5.58	1.49
Privately Insured	46	3,377,391	5.67	0.94
USDA/RD Guaranteed.....	48	3,680,889	6.65	(5)
Uninsured.....	<u>19</u>	<u>1,152,305</u>	4.75	(5)
TOTAL	<u>606</u>	<u>\$50,762,126</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.87%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of December 31, 2016 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2016, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	82	\$ 8,206,900	0.87%	0.80% ⁽⁴⁾
VA Guaranteed	5	575,617	1.99	0.94
Privately Insured	8	764,257	0.99	0.36
USDA/RD Guaranteed.....	4	306,630	0.55	(5)
Uninsured.....	<u>2</u>	<u>150,346</u>	0.50	(5)
TOTAL	<u>101</u>	<u>\$10,003,751</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of September 30, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.09%, based on a total of 10,351 Program Loans as of September 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	190	\$17,536,058	2.13%	1.33% ⁽⁴⁾
VA Guaranteed	5	410,693	2.16	0.80
Privately Insured	3	143,181	1.21	0.41
USDA/RD Guaranteed.....	13	1,130,721	2.11	(5)
Uninsured.....	<u>5</u>	<u>350,498</u>	1.52	(5)
TOTAL	<u>216</u>	<u>\$19,571,150</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.66%, based on a total of 10,351 Program Loans as of September 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	411	\$33,156,480	4.60%	2.21% ⁽⁴⁾
VA Guaranteed	17	1,298,092	7.36	1.39
Privately Insured	11	757,325	4.45	0.66
USDA/RD Guaranteed.....	28	2,065,701	4.55	(5)
Uninsured.....	<u>15</u>	<u>825,855</u>	4.57	(5)
TOTAL	<u>482</u>	<u>\$38,103,452</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total,

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.56%, based on a total of 10,351 Program Loans as of September 30, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2016 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2016, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	50	\$4,620,684	0.56%	0.73% ⁽⁴⁾
VA Guaranteed	1	108,481	0.43	0.85
Privately Insured	2	102,416	0.81	0.30
USDA/RD Guaranteed.....	5	354,826	0.81	(5)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(5)
TOTAL.....	<u>58</u>	<u>5,186,407</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of June 30, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.79%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	154	\$14,078,803	1.78%	1.32% ⁽⁴⁾
VA Guaranteed	4	425,812	1.75	0.85
Privately Insured	1	60,180	0.38	0.41
USDA/RD Guaranteed.....	11	730,297	1.76	(5)
Uninsured.....	<u>11</u>	<u>599,947</u>	3.30	(5)
TOTAL.....	<u>181</u>	<u>\$15,895,039</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.48%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	392	\$30,675,684	4.54%	2.19% ⁽⁴⁾
VA Guaranteed	14	1,029,600	6.14	1.54
Privately Insured	11	793,504	4.21	0.71
USDA/RD Guaranteed.....	27	2,046,327	4.31	(5)
Uninsured.....	8	475,352	2.40	(5)
TOTAL	<u>452</u>	<u>\$35,020,467</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.39%, based on a total of 10,085 Program Loans as of June 30, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of June 30, 2016 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2016, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	37	\$3,457,063	0.43%	0.73% ⁽⁴⁾
VA Guaranteed	2	98,457	0.88	0.84
Privately Insured	0	0	0.00	0.30
USDA/RD Guaranteed.....	0	0	0.00	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>39</u>	<u>\$3,555,520</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended June 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.



Tennessee Housing
Development Agency

Supplement Dated December 8, 2017 to
Official Statement Dated November 8, 2017
Relating to

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds
\$11,460,000 Issue 2017-4A (Non-AMT)
\$88,440,000 Issue 2017-4B (Non-AMT)

The Official Statement dated November 8, 2017 (the “Official Statement”) relating to the above-referenced Bonds is hereby amended to add the following as the eighth paragraph under “INTRODUCTION”:

“THDA is considering the issuance of additional series of tax-exempt Bonds prior to December 31, 2017 under the General Resolution on a parity with the Offered Bonds. Such Bonds are expected to be sold via a direct purchase private placement, to bear interest at variable rates and to be collateralized by a segregated Bond proceeds account and invested in permitted investments as allowed under the authorizing resolution until remarketed. The aggregate principal amount of any additional series of Bonds issued is not expected to exceed \$750 million.”

Please affix this Supplement to the Official Statement that you have in your possession and forward this Supplement to any party to whom you delivered a copy of the Official Statement.

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2017-4 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that (i) interest on the Issue 2017-4 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations, (ii) interest on the Issue 2017-4A Bonds will be included in corporations' calculations of adjusted current earnings and the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"), and (iii) interest on the Issue 2017-4B Bonds will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code. In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2017-4 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2017-4 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds

\$11,460,000 Issue 2017-4A (Non-AMT)

\$88,440,000 Issue 2017-4B (Non-AMT)[†]

Dated: Date of Delivery

Due: As shown on inside front cover

The Issue 2017-4A Bonds (the "Issue 2017-4A Bonds") and the Issue 2017-4B Bonds (the "Issue 2017-4B Bonds" and, together with the Issue 2017-4A Bonds, the "Issue 2017-4 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on July 1, 2018, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about December 19, 2017.

RBC CAPITAL MARKETS

CITIGROUP

FTN FINANCIAL CAPITAL MARKETS

WELLS FARGO SECURITIES

RAYMOND JAMES

J.P. MORGAN

WILEY BROS.—AINTREE CAPITAL, LLC

November 8, 2017

[†]Interest on the Issue 2017-4B Bonds is not included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$11,460,000 Issue 2017-4A (Non-AMT)

\$11,460,000 Serial Bonds						
Year	Principal Amount Due January 1	Interest Rate	CUSIP Number⁽¹⁾	Principal Amount Due July 1	Interest Rate	CUSIP Number⁽¹⁾
2018				\$ 440,000	0.95 %	880461QZ4
2019	\$ 1,075,000	1.15%	880461RA8	1,240,000	1.25	880461RB6
2020	1,255,000	1.35	880461RC4	1,265,000	1.45	880461RD2
2021	1,275,000	1.50	880461RE0	1,290,000	1.60	880461RF7
2022	1,305,000	1.65	880461RG5	1,315,000	1.75	880461RH3
2023	1,000,000	1.80	880461RJ9			

\$88,440,000 Issue 2017-4B (Non-AMT)[†]

\$22,820,000 Serial Bonds						
Year	Principal Amount Due January 1	Interest Rate	CUSIP Number⁽¹⁾	Principal Amount Due July 1	Interest Rate	CUSIP Number⁽¹⁾
2023	\$ 330,000	1.80%	880461RK6	\$ 1,350,000	1.90 %	880461RL4
2024	1,365,000	2.00	880461RM2	1,385,000	2.00	880461RN0
2025	1,405,000	2.10	880461RP5	1,425,000	2.20	880461RQ3
2026	1,445,000	2.30	880461RR1	1,465,000	2.35	880461RS9
2027	1,490,000	2.45	880461RT7	1,515,000	2.50	880461RU4
2028	1,540,000	2.65	880461RV2	1,565,000	2.70	880461RW0
2029	1,590,000	2.75	880461RX8	1,620,000	2.80	880461RY6
2030	1,650,000	2.85	880461SD1	1,680,000	2.90	880461SE9

\$65,620,000 Term Bonds			
Maturity Date	Principal Amount Due	Interest Rate	CUSIP Number⁽¹⁾
July 1, 2032	\$ 7,055,000	3.00 %	880461RZ3
July 1, 2037	10,745,000	3.35	880461SA7
July 1, 2040	21,820,000	3.45	880461SB5
July 1, 2048 (PAC)	26,000,000	4.00	880461SC3

PRICE OF ISSUE 2017-4B BONDS DUE JULY 1, 2032: 99.500%

PRICE OF ISSUE 2017-4B BONDS DUE JULY 1, 2048 (PAC): 109.271%

PRICE OF ALL REMAINING ISSUE 2017-4 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

[†] Interest on the Issue 2017-4B Bonds is not included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds
\$11,460,000 Issue 2017-4A (Non-AMT)
\$88,440,000 Issue 2017-4B (Non-AMT)[†]

INTRODUCTION

This Official Statement (the “Official Statement”) provides certain information in connection with the issuance by the Tennessee Housing Development Agency (“THDA”) of its Residential Finance Program Bonds, Issue 2017-4A in the aggregate principal amount of \$11,460,000 (the “Issue 2017-4A Bonds”), and Issue 2017-4B in the aggregate principal amount of \$88,440,000 (the “Issue 2017-4B Bonds” and, together with the Issue 2017-4A Bonds, the “Issue 2017-4 Bonds” or the “Offered Bonds”).

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the “Act”). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the “General Resolution”) and by a Resolution adopted by THDA on September 26, 2017, as amended and supplemented by the Bond Finance Committee of THDA (the “Bond Finance Committee”) on November 8, 2017 (the “Issue 2017-4 Supplemental Resolution”). The General Resolution and the Issue 2017-4 Supplemental Resolution are herein collectively referred to as the “Resolution.”

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2017-4 Bonds on September 22, 2017.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of September 30, 2017 (unaudited), Bonds in the aggregate principal amount of \$1,358,730,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$303,545,000 were outstanding under THDA’s Housing Finance Program Resolution (the “2009 General Resolution”), and bonds in the aggregate principal amount of \$272,385,000 were outstanding under THDA’s Homeownership Program Resolution (the “1985 General Resolution”). No bonds are outstanding under THDA’s Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”). For more information see “Other Financings—Housing Bond Resolution (Mortgage Finance Program)” in Appendix E.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption “SECURITY AND SOURCES OF PAYMENT OF BONDS”. All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the “Bonds”. The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the “Public Pledge Act”). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee’s codification of Article 9 of the Uniform Commercial Code.

[†]Interest on the Issue 2017-4B Bonds is not included in corporations’ calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects to use the proceeds from the issuance of the Issue 2017-4A Bonds to refund all Issue 2008-1 Bonds issued and outstanding under the 1985 General Resolution (the "Prior Bonds"). As a result of the refunding, mortgage loans previously allocable to the Prior Bonds in an expected aggregate outstanding amount of approximately \$12,349,104 will be allocated to the Offered Bonds (the "Transferred Program Loans"). See "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS" for information about the Transferred Program Loans. In addition, other investments allocable to the Prior Bonds in the projected amount of approximately \$599,833 will be transferred to accounts established for the Offered Bonds under the General Resolution (the "Transferred Investments"). It is anticipated that the Prior Bonds will be redeemed prior to maturity on January 1, 2018, at the applicable redemption prices thereof plus accrued interest. No assurance can be provided that the Prior Bonds will actually be refunded.

THDA expects that the proceeds of the Issue 2017-4B Bonds will be used to: (i) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (ii) pay capitalized interest, if any; (iii) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (iv) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix G.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution, including the Transferred Program Loans and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" refers to the Transferred Program Loans as well as new Program Loans (including participations therein) to be financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2017-4 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA does not intend to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance. While the Issue 2017-4 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured

by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of September 30, 2017 (unaudited), 13,562 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$1,317,066,223. Based on the outstanding principal balance of Program Loans as of September 30, 2017 (unaudited), approximately 85.95% were FHA insured, approximately 1.86% were VA guaranteed, approximately 5.94% were insured by private mortgage insurance companies, approximately 4.17% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.08% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See "RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data" and Appendix B under the heading "Private Mortgage Insurance Programs".

U.S. Bank National Association (the "Trustee") is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2017-4 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2017-4 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D "2013 GENERAL RESOLUTION". Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, ("DTC"), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each series and maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such series and maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F "BOOK-ENTRY-ONLY SYSTEM" for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2017-4 Bonds and is payable on July 1, 2018, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2017-4B Bonds maturing on July 1, 2032, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2031, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2017-4B Term Bonds Due July 1, 2032

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2031	\$ 1,715,000	\$ 1,745,000
2032	1,780,000	1,815,000 (maturity)

The Issue 2017-4B Bonds maturing on July 1, 2037, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2033, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2017-4B
Term Bonds Due July 1, 2037**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2033	\$ 980,000	\$ 995,000
2034	1,020,000	1,040,000
2035	1,060,000	1,085,000
2036	1,105,000	1,130,000
2037	1,155,000	1,175,000 (maturity)

The Issue 2017-4B Bonds maturing on July 1, 2040, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2033, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2017-4B
Term Bonds Due July 1, 2040**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2033	\$ 870,000	\$ 890,000
2034	905,000	925,000
2035	945,000	965,000
2036	985,000	1,005,000
2037	1,025,000	1,050,000
2038	2,270,000	2,320,000
2039	1,855,000	1,895,000
2040	1,935,000	1,980,000 (maturity)

The Issue 2017-4B Bonds maturing on July 1, 2048 (the "PAC Bonds"), are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2041, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2017-4B
PAC Term Bonds Due July 1, 2048**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2041	\$ 1,420,000	\$ 1,445,000
2042	1,475,000	1,500,000
2043	1,525,000	1,550,000
2044	1,580,000	1,605,000
2045	1,635,000	1,665,000
2046	1,690,000	1,720,000
2047	1,750,000	1,780,000
2048	1,815,000	1,845,000 (maturity)

Optional Redemption. The Issue 2017-4 Bonds maturing on and after July 1, 2027, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after January 1, 2027, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2017-4 Principal Payments (as defined below). Any Excess 2017-4 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing July 1, 2018; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2017-4 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds are equal to or less than 400% PSA (as defined below under “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds”), as determined by THDA, then available Excess 2017-4 Principal Payments shall first be applied to redeem PAC Bonds up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds are in excess of 400% PSA, as determined by THDA, then available Excess 2017-4 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds shall first be applied to redeem PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an “Excess Principal PAC Bond Redemption”); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2017-4 Principal Payments which is in excess of 400% PSA, and (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds’ proportionate amount of all Issue 2017-4 Bonds then Outstanding.

“Excess 2017-4 Principal Payments” means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

“Planned Amortization Amount” means the dollar amount applicable to the PAC Bonds for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the PAC Bonds assumed to be redeemed from Excess 2017-4 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds. See “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds” for a description of PSA prepayment rates.

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The Planned Amortization Amounts for the PAC Bonds (which assume the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination, the allocation of the Transferred Program Loans to the Offered Bonds in an aggregate principal amount of approximately \$12,349,104 with an approximate weighted average maturity of 245 months, and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedules

<u>Date</u>	<u>PAC Bonds Planned Amortization Amount</u>
July 1, 2018	\$ 295,000
January 1, 2019	675,000
July 1, 2019	1,530,000
January 1, 2020	2,865,000
July 1, 2020	4,650,000
January 1, 2021	6,755,000
July 1, 2021	8,915,000
January 1, 2022	11,010,000
July 1, 2022	12,985,000
January 1, 2023	14,840,000
July 1, 2023	16,570,000
January 1, 2024	18,185,000
July 1, 2024	19,690,000
January 1, 2025	21,075,000
July 1, 2025	22,355,000
January 1, 2026	23,525,000
July 1, 2026	24,590,000
January 1, 2027	25,545,000
July 1, 2027	26,000,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the PAC Bonds are redeemed from amounts on deposit in the Issue 2017-4 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds.”

Special Optional Redemption of the Offered Bonds, including Cross Calls The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading “DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds”; (ii) except as otherwise described under the headings “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and “– Mandatory Redemption – 10 Year Rule”, repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, “Code”), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and (b) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bonds to exceed the Planned Amortization Amount shown above in the PAC Bonds Amortization Schedule. The Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds and the Issue 2017-4B Bonds maturing on July 1, 2032 (the “2032 Term Bonds”) in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium in the case of the PAC Bonds, and the price as determined by THDA that maintains the original yield to maturity in the case of the 2032 Term Bonds) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph. See “ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments” and “ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices”.

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof allocable to the Offered Bonds shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the related Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedule only if there are no other Offered Bonds outstanding.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans (or portions thereof) allocable to the Offered Bonds in accordance with the following approximate 10 year rule percentages to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Commencement Date</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
December 19, 2017	11.35 %
May 29, 2018	12.25
December 19, 2027	100.00 %

THDA will redeem the Offered Bonds in accordance with this schedule to the extent required to comply with the Code. THDA reserves the right to modify this schedule at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory redemption on October 1, 2018, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2017-4 Bonds Subaccount of the Loan Fund on September 1, 2018, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2017-4 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on June 1, 2021, to the extent any amounts remain on deposit in the Issue 2017-4 Bonds Subaccount of the Loan Fund on May 1, 2021.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds and the 2032 Term Bonds shall be the issue price thereof (par plus initial premium in the case of the PAC Bonds, and the price as determined by THDA that maintains the original yield to maturity in the case of the 2032 Term Bonds) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding.

Selection By Lot

If less than all of the Issue 2017-4 Bonds of like series and maturity are to be redeemed, the particular Issue 2017-4 Bonds of such series and maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2017-4 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 99,900,000.00
Premium on PAC Bonds (net of discount on 2032 Term Bonds).....	2,375,185.00
Transferred Program Loans	12,349,104.08
Transferred Investments	599,833.18
TOTAL SOURCES	<u>\$ 115,224,122.26</u>

USES

Deposit to Loan Fund ⁽¹⁾	\$ 100,789,104.08
Redemption of Prior Bonds	11,460,000.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,000,000.00
Deposit to Bond Reserve Fund	1,162,307.36
Costs of Issuance	184,020.00
Underwriters' Fee	628,690.82
TOTAL SOURCES	<u>\$ 115,224,122.26</u>

(1) Includes \$88,440,000 in proceeds from Issue 2017-4B plus approximately \$12,349,104 in Transferred Program Loans.

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D “2013 GENERAL RESOLUTION”); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the “Bond Reserve Fund Requirement.” The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D “2013 GENERAL RESOLUTION” for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the “Projected Cash Flow Statement”). The Projected Cash Flow Statement will be based, among other

assumptions, on the assumptions that (i) Transferred Program Loans in the aggregate principal amount of approximately \$12,349,104, with a weighted average maturity of approximately 245 months and a weighted average interest rate of approximately 6.03%, will be allocated to the Offered Bonds and (ii) THDA originates approximately \$88,440,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 4.62%. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2017-4 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA, including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" for descriptions of the various Program Loan products and Appendix G "RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES" for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2017-4B Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 4.62% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates

offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2017-4B Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2017-4B Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on October 20, 2017. As of October 30, 2017, THDA has committed a total principal amount of approximately \$9,524,000 of Program Loans, all of which are Great Choice Program Loans and Homeownership for the Brave Program Loans, that will be allocated to the Offered Bonds. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans". Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

In recent years a number of financial institutions and related entities have announced large losses as a result of their mortgage activities and the increasing number of defaults and foreclosures on such mortgages. The United States Congress has passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and may pass additional legislation impacting the origination and servicing of mortgage loans. Likewise, the Tennessee General Assembly may enact legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA's single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA's activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA's single-family loans could adversely affect the THDA's ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D "2013 GENERAL RESOLUTION"), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans (including Transferred Program Loans) will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” “- Special Optional Redemption of the Offered Bonds, including Cross Calls” and “- Mandatory Redemption – 10-Year Rule”.

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds.”

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA’s general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA’s current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA’s determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D “2013 GENERAL RESOLUTION” for a description of Program Expenses. THDA expects to use funds on deposit in the Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters’ fees, initial Trustee’s fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee’s fees, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see “THDA – THDA Funds”. THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum; and (iii) funds on deposit in the Issue 2017-4 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term “weighted average life” refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association (“PSA”)) prepayment standard or model (commonly referred to as the “PSA Prepayment Model”).

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, “0% PSA” assumes no prepayments of principal on the Program Loans. “25% PSA” assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. “50% PSA” assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. “75% PSA” assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. “100% PSA” assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. “200% PSA” assumes the principal of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. “300% PSA” assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “400% PSA” assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “500% PSA” assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors’ housing needs, job transfers, unemployment and mortgagors’ net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under “Changes in Federal or State Law” above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds”, and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2017-4 Bond Subaccount of the Loan Fund is applied to finance Program Loans, (ii) approximately \$12,349,104 of Transferred Program Loans with an approximate weighted average maturity of 245 months and an approximate weighted average interest rate of

6.03% will be allocated to the Offered Bonds, (iii) Excess 2017-4 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iv) the PAC Bonds will be redeemed only in the Planned Amortization Amounts as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds” and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate. For certain information regarding Transferred Program Loans see “DESCRIPTION OF TRANSFERRED PROGRAM LOANS” herein.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>PAC Bond Average Life (in years)</u>
0%	26.0
25	22.6
50	14.7
75	8.2
100	5.0
200	5.0
300	5.0
400	5.0
500	4.7

RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

THDA has issued \$1,649,105,000 total original principal amount of bonds under the General Resolution, of which \$1,358,730,000 (unaudited) were outstanding as of September 30, 2017, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of September 30, 2017 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$ 114,845,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	75,470,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	104,780,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	117,825,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	131,125,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	153,740,000	3.25
Issue 2016-1	May 18, 2016	125,000,000	115,860,000	2.68
Issue 2016-2	October 18, 2016	125,000,000	119,095,000	2.68
Issue 2016-3	November 17, 2016	62,000,000	52,895,000	2.97
Issue 2017-1	March 30, 2017	100,000,000	98,195,000	3.15
Issue 2017-2	June 27, 2017	175,000,000	175,000,000	2.94
Issue 2017-3	September 28, 2017	99,900,000	99,900,000	3.30
TOTAL		<u>\$ 1,649,105,000</u>	<u>\$ 1,358,730,000</u>	

(1) Bond yield.

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Origination Experience

THDA's experience from May 30, 2013, to September 30, 2017 (unaudited), regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

Issue of Bonds	Lendable Proceeds ⁽²⁾	Program Loans Financed ⁽³⁾ as of September 30, 2017		Weighted Average Interest Rate ⁽⁴⁾
		Amount	%	
Issue 2013-1	\$ 135,268,395	\$ 135,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	92,340,000	92,340,000	100.00	3.98
Issue 2016-2	91,685,000	91,685,000	100.00	3.87
Issue 2017-1	102,200,000	102,200,000	100.00	4.15
Issue 2017-2	128,090,000	128,090,000	100.00	4.61
Issue 2017-3	90,500,000	36,439,756	40.26	4.62
TOTAL	\$ 1,215,883,875	\$ 1,161,823,472		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included. All lendable proceeds with respect to the Issue 2017-3 Bonds were committed as of October 20, 2017.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on October 20, 2017, and as of October 30, 2017, THDA has committed a total principal amount of approximately \$9,524,000 of Program Loans that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. The THDA Household Income Limits range from \$57,480 to \$96,180 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2017-4 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including

certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance. While the Issue 2017-4 Supplemental Resolution provides that Program Loans, or participations therein, to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date, including the Transferred Program Loans, were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. Transferred Program Loans financed prior to September 30, 2013, are Great Rate, Great Advantage, Great Start or Homeownership for the Brave Program Loans. On and after October 1, 2013, the THDA primary loan program has included Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. Since October 1, 2013, THDA has provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below. As of March 1, 2017, THDA began providing additional downpayment and closing cost assistance through its Hardest Hit Fund Down Payment Assistance program as described below.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 4.625%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans. From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans in a principal amount equal to 4% of the purchase price of the property purchased. From October 1, 2014, to September 30, 2016, Great Choice Plus Loans were 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, each Great Choice Plus loan will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

Since October 3, 2016, Great Choice Plus Loans are thirty year 0% interest rate second lien loans in a principal amount up to 5% of the purchase price of the property purchased. No monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan, provided, however, that the full original principal amount will be forgiven at the end of the thirty year term.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974

General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA. THDA does not expect that Great Choice Plus loans will be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

Hardest Hit Fund Down Payment Assistance

In March 2017, THDA began providing \$15,000 in downpayment assistance from the fifth round of federal Hardest Hit Fund funding ("HHF-DPA") to eligible borrowers who qualify for THDA Great Choice loans and who are purchasing existing homes in one of fifty-five zip codes in thirty Tennessee counties. HHF-DPA is secured by a second deed of trust for a ten year term. HHF-DPA does not bear interest, and there are no monthly payments, but it is due on sale. HHF-DPA is forgiven at 20% per year in years six through ten. A THDA approved Homebuyer Education course is also required.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans are serviced by the Federation of Appalachian Housing Enterprises, Inc., as of January 1, 2015. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. As of December 1, 2016, the maximum loan amount was increased to \$123,750 for Maury, Williamson, Davidson, Rutherford, Wilson and Sumner Counties. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable.

As of September 30, 2017 (unaudited), 115 New Start Program Loans, with an aggregate principal balance of approximately \$5,593,477, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction. Eligible borrowers will also be eligible for Great Choice Plus loans.

As of September 30, 2017 (unaudited), 223 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$25,011,225, were outstanding under the General Resolution. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became transferred program loans allocable to the Issue 2013-1 Bonds under the General Resolution.

As of September 30, 2017 (unaudited), 174 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$9,792,490, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers prior to October 1, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds. THDA also provided downpayment and closing cost assistance in the form of a grant in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made.

As of September 30, 2017 (unaudited), 2,763 Great Rate, 127 Great Advantage, and 1,739 Great Start Program Loans, with an aggregate principal balance of approximately \$380,969,471, were outstanding under the General Resolution.

Although Transferred Program Loans include Great Rate or Great Start Program Loans, THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of September 30, 2017 (unaudited), 13,562 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$1,317,066,223 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 308.91 months and an approximate weighted average interest rate of 4.51%.

Tables under this heading, "Residential Finance Program Portfolio Data", do not include data about Transferred Program Loans. For more information about Transferred Program Loans see "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS".

Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of September 30, 2017 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured	11,153	\$ 1,132,021,866	82.24%	85.95%
VA Guaranteed	263	24,476,903	1.94	1.86
Privately Insured	940	78,270,694	6.93	5.94
USDA/RD Guaranteed	768	54,941,633	5.66	4.17
Uninsured ⁽²⁾	438	27,355,127	3.23	2.08
TOTAL	13,562	\$ 1,317,066,223⁽⁴⁾	100.00%⁽⁴⁾	100.00%⁽⁴⁾

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution, either upon their direct transfer to the General Resolution or upon the refunding of other THDA obligations, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

As of September 30, 2017 (unaudited), 940⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$78,270,694 were outstanding under the General Resolution. As of September 30, 2017 (unaudited), THDA had the following information regarding the private mortgage insurers for 857 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance⁽³⁾</u>	<u>Percent of Total Number of Program Loans⁽³⁾</u>	<u>Percent of Total Outstanding Balance of Program Loans⁽³⁾</u>
Commonwealth/CMAC	3	\$ 78,270	0.02%	0.01%
Genworth Mortgage Insurance Corp. (GE)	350	30,214,041	2.58	2.29
MGIC	309	26,299,189	2.28	2.00
PMI Mortgage Insurance Co. ⁽²⁾	2	144,102	0.01	0.01
Radian Guaranty Inc.	5	286,779	0.04	0.02
Republic Mortgage Insurance Corporation	51	4,060,642	0.38	0.31
Triad Guaranty Insurance Corporation ⁽²⁾	7	435,491	0.05	0.03
United Guaranty Residential Insurance Co.	130	10,578,755	0.96	0.80
TOTAL	857	\$ 72,097,269⁽⁴⁾	6.32%⁽⁴⁾	5.47%⁽⁴⁾

(1) The private mortgage insurer is not identified with respect to 83 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA compiled data with respect to individual private mortgage insurance providers.

(2) Certain private mortgage insurance companies are under the oversight of their respective state insurance regulators and may pay claims at rates less than \$1.00 per \$1.00 of coverage.

(3) Rounded figures.

(4) Rounded total.

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Program Loan Interest Rates

The following table summarizes, as of September 30, 2017 (unaudited), the interest rates of the outstanding Program Loans:

Mortgage Rates (%)	Number of Program Loans⁽¹⁾	Outstanding Balance ⁽²⁾	Percent of Total Number of Program Loans⁽²⁾	Percent of Total Outstanding Balance ⁽²⁾
0.00-1.99	173	\$ 7,900,752	1.28%	0.60%
2.00-2.99	2	162,435	0.01	0.01
3.00-3.99	3,706	436,700,015	27.33	33.16
4.00-4.49	3,104	363,695,795	22.89	27.61
4.50-4.99	2,143	236,146,089	15.80	17.93
5.00-5.49	1,234	98,305,681	9.10	7.46
5.50-5.99	1,546	89,822,991	11.40	6.82
6.00-6.49	544	42,425,281	4.01	3.22
6.50-6.99	599	28,558,773	4.42	2.17
7.00-7.49	230	7,520,060	1.70	0.57
7.50-7.99	203	4,072,981	1.50	0.31
8.00-8.99	74	1,705,776	0.55	0.13
9.00-9.49	3	41,655	0.02	0.00
9.50-12.00	1	7,941	0.01	0.00
TOTAL	13,562	\$1,317,066,223⁽³⁾	100.00%⁽³⁾	100.00%⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have passed with no payment received by the last business day of the month in which the second payment was due are considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

The financial institutions who service Program Loans manage delinquencies by working with borrowers in an attempt to avoid defaults and by sending payment requests to borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

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Delinquencies and Foreclosures as of September 30, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.93%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	223	\$ 22,374,473	2.00%	0.91% ⁽⁴⁾
VA Guaranteed	2	157,772	0.76	0.72
Privately Insured	13	984,104	1.38	0.65 ⁽⁵⁾
USDA/RD Guaranteed.....	17	1,150,950	2.21	⁽⁶⁾
Uninsured.....	7	473,226	1.60	⁽⁶⁾
TOTAL	<u>262</u>	<u>\$ 25,140,524⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.24%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	560	\$ 49,491,381	5.02%	1.82% ⁽⁴⁾
VA Guaranteed	20	1,301,089	7.60	1.15
Privately Insured	71	4,883,975	7.55	1.09 ⁽⁵⁾
USDA/RD Guaranteed.....	46	3,324,364	5.99	⁽⁶⁾
Uninsured.....	13	629,014	2.97	⁽⁶⁾
TOTAL	<u>710</u>	<u>\$ 59,629,823⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.53%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of September 30, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2017, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	62	\$ 6,276,684	0.56%	0.58% ⁽⁴⁾
VA Guaranteed	2	273,802	0.76	0.84
Privately Insured	5	517,833	0.53	0.40 ⁽⁵⁾
USDA/RD Guaranteed.....	3	240,117	0.39	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	<u>72</u>	<u>\$ 7,308,436⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS

General

As of September 30, 2017, the Transferred Program Loans have an approximate weighted average maturity of 248 months and a weighted average interest rate of 6.03% per annum. Average prepayment rate information for the Transferred Program Loans is discussed in "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS – Prepayment Experience of Transferred Program Loans" below. It is anticipated that the characteristics of the pool of Transferred Program Loans will be substantially similar to the loans described below (such information below is as of September 30, 2017 (unaudited); the Transferred Program Loans will not be allocable to the Offered Bonds until December 19, 2017, and Transferred Program Loan characteristics may change from September 30, 2017, to December 19, 2017).

Transferred Program Loans by Loan Type

<u>Type of Mortgage</u>	<u>Number</u>	<u>Principal Amount</u> ⁽³⁾	<u>% of Transferred Principal Amount</u>
FHA Insured	108	\$ 8,414,957	67.06%
VA Guaranteed	2	177,249	1.41
Privately Insured ⁽¹⁾	27	2,214,947	17.65
USDA/RD Guaranteed.....	16	1,115,804	8.89
Uninsured ⁽²⁾	8	626,148	4.99
TOTAL	<u>161</u>	<u>\$ 12,549,104⁽⁴⁾</u>	<u>100.00%</u>

(1) This includes Program Loans for which private mortgage insurance was in place at the time of the closing of the respective Program Loan.

(2) Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, and Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Transferred Program Loans

Each private mortgage insurer insuring conventional, privately insured THDA Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured THDA Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

As of September 30, 2017 (unaudited), 27 privately insured Transferred Program Loans having an aggregate principal balance of approximately \$2,214,947 were outstanding. As of September 30, 2017 (unaudited), THDA had the following information regarding the private mortgage insurers for 27 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Transferred Program Loans</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>Percent of Total Number of Transferred Program Loans⁽¹⁾</u>	<u>Percent of Total Outstanding Balance of Transferred Program Loans⁽¹⁾</u>
Genworth Mortgage Insurance Corp. (GE)	22	\$ 1,756,477	13.66%	14.00%
MGIC	3	325,947	1.86	2.60
Republic Mortgage Insurance Corporation	1	127,018	0.62	1.01
United Guaranty Residential Insurance Co.	1	5,505	0.62	0.04
TOTAL	27	\$ 2,214,947⁽²⁾	16.77%⁽²⁾	17.65%⁽²⁾

(1) Rounded figures.

(2) Rounded total.

Prepayment Experience of Transferred Program Loans

The Transferred Program Loans are composed of mortgage loans originally allocable to the Prior Bonds. The table set forth below lists the actual average prepayment rate (principal only) experience as a percentage of the PSA Prepayment Model of the mortgage loans allocable to the Prior Bonds for the 3 month, 6 month and 12 month periods ended on September 30, 2017, based on principal prepayment data available to THDA.

<u>Issue</u>	<u>3 Months</u>	<u>6 Months</u>	<u>12 Months</u>	<u>Since Inception</u>	<u>Weighted Average Interest Rate</u>
2008-1	202%	283%	273%	269%	6.03%

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Delinquency Information for the Transferred Program Loans

The overall delinquency rate for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.24%, based on a total of 161 Transferred Program Loans as of September 30, 2017 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending June 30, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	2	\$ 153,706	1.85%	0.91% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.72
Privately Insured	0	0	0.00	0.65 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	2	\$ 153,706 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate for the Transferred Program Loans that were ninety (90) days past due was 9.32%, based on a total of 161 Transferred Program Loans as of September 30, 2017 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were ninety (90) days past due as of September 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending June 30, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	10	\$ 834,950	9.26%	1.82% ⁽⁴⁾
VA Guaranteed	0	0	0.00	1.15
Privately Insured	3	193,394	11.11	1.09 ⁽⁵⁾
USDA/RD Guaranteed.....	2	146,340	12.50	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	15	\$ 1,174,683 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate of Transferred Program Loans in foreclosure was 0.62%, based on a total of 161 Transferred Program Loans as of September 30, 2017 (unaudited).

The foreclosure rate by loan type for the Transferred Program Loans in foreclosure as of September 30, 2017, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA, by loan type, for the quarter ending June 30, 2017, are shown in the following table:

IN FORECLOSURE AS OF SEPTEMBER 30, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	1	\$ 94,659	0.93%	0.58% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.84
Privately Insured	0	0	0.00	0.40 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	<u>1</u>	<u>\$ 94,659⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

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FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the four most recent years. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2016, 2015, 2014, and 2013, and from unaudited financial information of THDA for the twelve months ended June 30, 2017.

	Year Ended June 30 (Unaudited)		Year Ended June 30 (Audited)		
<u>Residential Finance Bond Group</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES:					
Interest on Mortgages	\$ 49,298	\$ 36,426	\$ 25,393	\$ 13,518	\$ 222
Investment Income:					
Interest	1,617	2,011	1,866	335	10
Net Increase (decrease) in the Fair Value of Investments	(792)	(320)	(552)	(146)	(83)
Fees and Other Income	853	953	160	-	76
	<u>50,976</u>	<u>39,070</u>	<u>26,867</u>	<u>13,707</u>	<u>225</u>
EXPENSES:					
Interest	30,542	24,876	17,058	9,087	551
Issuance Cost	3,602	2,311	2,343	2,167	1,679
Mortgage Servicing Fees	3,857	2,967	2,048	980	18
Other	970	1,157	1,001	239	1
	<u>38,971</u>	<u>31,311</u>	<u>22,450</u>	<u>12,473</u>	<u>2,249</u>
Excess of Revenues over Expenses	12,005	7,759	4,417	1,234	(2,024)
Net Position at beginning of period	116,295	101,055	105,707	(68,279)	-
Other Transfers	47,730	7,481	(9,069)	172,752	(66,255)
Net Position at end of period	<u>\$ 176,030</u>	<u>\$ 116,295</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>	<u>\$ (68,279)</u> ⁽¹⁾

⁽¹⁾ On May 30, 2013 THDA issued its Issue 2013-1 Bonds under the General Resolution. Proceeds of the Issue 2013-1 Bonds in an aggregate principal amount of \$75,905,000 were applied to the refunding of THDA's Issue 2003-A Bonds under the 1974 General Resolution and THDA's Issue 2004-1 Bonds under the 1985 General Resolution. While the Issue 2013-1 Bonds were issued on May 30, 2013, the assets allocable to the Issue 2003-A and the Issue 2004-1 Bonds in an aggregate amount of approximately \$99,855,200 did not transfer to the General Resolution until July 1, 2013, the date of the redemption of such bonds. As a result of such transfer, the net position of the General Resolution as of July 1, 2013, was approximately \$31,576,000 (unaudited).

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of September 30, 2017 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$101,233,220	\$ 53,037,087
Federal Home Loan Mortgage Corporation Notes	999,698	25,020,144
Fannie Mae Notes	11,716,321	8,508,996
Financing Corporation Bonds	0	2,396,354
TOTAL.....	<u>\$113,949,238</u>	<u>\$ 88,962,582</u>

As of September 30, 2017 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 1,230,377	\$ 32,461,266
Federal Home Loan Mortgage Corporation Notes	0	99,842
Fannie Mae Notes	0	8,508,996
TOTAL.....	<u>\$ 1,230,377</u>	<u>\$ 41,070,104</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2018. On August 30, 2017, the Government Operations Joint Subcommittee of the General Assembly unanimously recommended that THDA's existence be continued for an additional four years. Legislation to effectuate this recommendation is expected to be taken up by the General Assembly in early 2018.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of September 30, 2017 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$1,934,660,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Kim Grant Brown, Chairman	June 30, 2019	Owner, Grant & Company Collierville, TN
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Tre Hargett ⁽¹⁾	January, 2021	Secretary of State
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
Ronald K. Jones	June 30, 2020	Executive Director, Trevecca Towers Nashville
David H. Lillard, Jr. ⁽¹⁾	January, 2019	State Treasurer
Larry Martin ⁽¹⁾	(2)	Commissioner, Department of Finance and Administration
Austin McMullen	June 30, 2019	Member, Bradley Arant Boult Cummings LLP Nashville
Todd Skelton ⁽¹⁾	(2)	Deputy Counsel to the Governor
John K. Snodderly	June 30, 2019	Executive Director, LaFollette Housing Authority LaFollette
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Pieter J. van Vuuren	June 30, 2019	President & CEO, First National Bank of McMinnville McMinnville, TN
Justin Wilson ⁽¹⁾	January, 2019	Comptroller of the Treasury
Mary Mac R. Wilson	June 30, 2021	Director of Parish Operations, Roman Catholic Diocese of Knoxville, Knoxville, TN
Daisy Fields	(3)	Gallatin, TN

(1) Ex officio member.

(2) Serves at pleasure of the Governor.

(3) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 239 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Servicing since 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Operating Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010).

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Connors & Berry (currently Bradley Arant Boulton Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999); Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the "State") amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

As of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ending June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees.

The TCRS covers three large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 58,683 active members in TCRS in the state and higher education employee group at June 30, 2016. This total includes 239 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation for the defined benefit plan or contributions to a defined contribution plan.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age 60 or 30 years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute at 5% of salary to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with an overall 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age 65 or the rule of 90 (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan, requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute to TCRS 15.02% of salary for the period July 1, 2016 through June 30, 2017, based on the July 1, 2015 actuarial valuation. The June 30, 2016 actuarial valuation established the employer contribution rate of 18.87% that is applicable for the period July 1, 2017 through June 30, 2018. The June 30, 2017 actuarial valuation will establish employer contribution rates for the period July 1, 2018 through June 30, 2019. General state employees do not contribute to this plan.

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2017 (measurement date of June 30, 2016), the net pension liability for the state and higher education employee group based on the market value of assets was \$1.8 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 87.96%.

Actuarial Data for Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, an actuarial valuation is performed to determine the employer contribution rate as well as the actuarially determined contribution (ADC) and the stabilization reserve rate. For the period July 1, 2016 through June 30, 2017, the overall 4% employer contribution rate to TCRS consists of 3.94% for general employees, with the employer rate for judicial and public safety employees being higher at 6.27% and 4.69%, respectively. The employer contribution rate for general employees of 3.94% consists of 1.13% for the ADC and 2.81% for the stabilization reserve.

For the period July 1, 2017 through June 30, 2018, the employer contribution rate consists of 3.94% for general employees, with the employer rate for judicial and public safety employees being higher at 6.77% and 4.79%, respectively. The employer contribution rate for general employees of 3.94% consists of 1.29% for the ADC and 2.65% for the stabilization reserve.

THDA Employer Contributions for Pensions (TCRS and defined contribution plan)

For THDA, the employer contribution rate for employees hired before July 1, 2014, stated as a percentage of salary, is as follows: 15.02% for the period July 1, 2016 through June 30, 2017, and 18.87% for the period July 1, 2017 through June 30, 2018. For employees first hired after June 30, 2014, the employer rate is 8.87% for the period July 1, 2016 through June 30, 2017 and 8.94% for the period July 1, 2017 through June 30, 2018 (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions for the pension plans are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	THDA Employer Contributions to DC (Open Plan)	Percentage of THDA Budget
2018 ⁽¹⁾	18.87/9.00% ⁽²⁾	\$ 17,415,000 ⁽¹⁾	\$ 2,440,500 ⁽¹⁾	\$ 207,900 ⁽¹⁾	2.37% ⁽¹⁾
2017	15.02/9.00 ⁽²⁾	13,396,776 ⁽³⁾	1,577,092	183,030	1.53
2016	15.03/9.00 ⁽²⁾	11,965,554	1,581,407	100,999	1.38
2015	15.02/9.00 ⁽²⁾	11,569,902	1,673,881	28,731	1.21
2014	15.03	11,721,300	1,761,711		1.19
2013	15.03	11,315,872	1,692,847		1.26
2012	14.91	11,005,204	1,632,095		1.36
2011	14.91	10,593,944	1,585,654		1.25
2010	13.02	9,956,646	1,295,272		1.03
2009	13.02	9,267,262	1,201,303		0.98

(1) Estimated

(2) Varies depending on plan the employee is enrolled in.

(3) The increase in "Total Salary of THDA Employees" from the actual amount for the fiscal year ending June 30, 2016, to the estimated amount for the fiscal year ending June 30, 2017, is due to the additional salaries for approximately thirty eight (38) positions THDA expects to fill in connection with the servicing activities THDA expects to undertake later in 2017.

For the fiscal year ending June 30, 2017, the salary of THDA employees totaled \$13,396,776, which represents 0.47% of the \$2.85 billion of salary for all state and higher education employees in TCRS.

It is anticipated that there will be upward pressure on the employer contribution rate in the Closed State and Higher Education Employee Pension Plan in future actuarial valuations as deferred investment losses that have been actuarially smoothed are recognized over the next ten years as well as a continuing low earnings environment.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

General Information about the 401(k) and 457 Defined Contribution Plans

The state provides additional voluntary defined contribution plans to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Employee contribution limits to the 401(k) and 457 plans are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA. The THDA contribution for the fiscal year ending June 30, 2017 (unaudited) was \$79,509.38.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 43 and 45) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2015, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used a projected unit credit actuarial cost method, indicates that for the fiscal year ended June 30, 2017, the total unfunded actuarial liability of THDA is approximately \$2,923,000 and the annual required contribution for THDA is approximately \$353,000. The annual required contribution consists of the normal cost (the portion of the actuarial present value of OPEB benefits which is allocated to a valuation year by the actuarial cost method) and an amortization of the unfunded actuarial liability. The report may be reviewed at <http://www.tn.gov/finance/article/fa-accfin-opeb>. The State did not pre-fund any actuarially determined OPEB liability, and continued to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for fiscal year ended June 30, 2017. The State charged THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that (i) interest on the Issue 2017-4 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations, (ii) interest on the Issue 2017-4A Bonds will be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code, and (iii) interest on the Issue 2017-4B Bonds will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a "Premium Bond") over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or otherwise prevent beneficial owners of the Issue 2017-3 Bonds from realizing the full current benefit of the tax status of such interest, or adversely affect the market value of the Issue 2017-3 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Issue 2017-3 Bonds. Purchasers of the Issue 2017-3 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Issue 2017-3 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation, regulatory initiatives or litigation.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

Due to the ongoing uncertainty regarding the economy of the United States of America (including, without limitation, matters such as the current and future political uncertainty regarding the United States debt limit), obligations, such as the Offered Bonds, issued by state and local governments, and instrumentalities thereof, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and

ratings, liquidity, and market value of outstanding debt obligations, including the Offered Bonds. When certain automatic spending cuts are imposed on the federal government as a result of actions taken or not taken by the federal government (commonly referred to as a sequester) or when the federal government fails to pass certain spending authorizations prior to certain deadlines, resulting in a cessation of various governmental functions and operations (commonly referred to as a government shutdown), there may not be any immediate direct adverse impact on FHA, VA, RD or THDA. No assurance can be given, however, that a sequester or a government shutdown that lasts an extended period of time would continue to have no direct adverse impact upon the United States housing industry in general or THDA in particular.

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, THDA, in the Issue 2017-4 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2017-4 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Preliminary Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MSRB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other

than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2017-4 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2017-4 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2017-4 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2017-4 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MRSB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2016, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the twelve months ended June 30, 2017. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor

have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

RBC Capital Markets, Citigroup Global Markets Inc., LLC, Raymond James & Associates, Inc., FTN Financial Capital Markets, J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and Wiley Bros.—Aintree Capital, LLC (collectively, the “Underwriters”) have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$628,690.82. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

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

FTN Financial Capital Markets is a division of First Tennessee Bank National Association and FTB Advisors, Inc. is a wholly-owned subsidiary of First Tennessee Bank National Association. FTN Financial Capital Markets has entered into a distribution agreement with FTB Advisors, Inc. for the distribution of the Offered Bonds at the original issue prices. Such arrangement generally provides that FTN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with FTB Advisors, Inc.

J.P. Morgan Securities LLC (“JPMS”), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

Wells Fargo Bank, National Association, acting through its Municipal Products Group (“WFBNA”), one of the underwriters of the Offered Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Offered Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Offered Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Offered Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other

affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Kim Grant Brown

Chair

/s/ Ralph M. Perrey

Executive Director



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

APPENDIX A

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and the other postemployment benefits schedule of funding progress, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA
Director
December 19, 2016

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2016, with comparative information presented for the fiscal year ended June 30, 2015. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2016, THDA has originated over 115,000 single-family mortgage loans in its 43-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

More recently, THDA has administered programs under the American Recovery and Reinvestment Act of 2009 (ARRA), including the Homeless Prevention and Rapid Re-Housing Program (HPRP), the Tax Credit Assistance Program (TCAP), the Neighborhood Stabilization Program (NSP), and a Low Income Housing Tax Credit exchange program under Section 1602 of the Act.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated 13-23-105*). This board meets regularly on a bi-monthly basis; however, some committees may meet more often as situations dictate.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discretely presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <http://www.tn.gov/finance/article/fa-accfin-cafr>

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2016

- Total assets decreased by \$90.1 million, or 3.5%.
- Deferred outflows of resources increased \$0.5 million, or 18.4%.
- Total liabilities decreased by \$83.1 million, or 4.1%.
- Net position was \$510.9 million. This is a decrease of \$3.4 million, or 0.7%, from fiscal year 2015.
- Cash and cash equivalents decreased by \$69.3 million, or 23.0%.
- Total investments increased by \$18.4 Million, or 7.2%.
- Bonds payable decreased by \$72.7 million, or 3.67%.
- Deferred inflows of resources decreased \$3.0 million, which was related to pensions.
- THDA originated \$293.4 million in new loans, which is an increase of \$42.7 million, or 17.03%, from the prior year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

FINANCIAL ANALYSIS OF THE AGENCY

Net Position. The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	<u>2016</u>	<u>2015</u>
Current assets	\$ 393,675	\$ 442,792
Capital assets	1,175	512
Other noncurrent assets	<u>2,081,560</u>	<u>2,123,193</u>
Total assets	<u>2,476,410</u>	<u>2,566,497</u>
Deferred outflows of resources	<u>3,142</u>	<u>2,653</u>
Current liabilities	149,798	191,375
Noncurrent liabilities	<u>1,817,534</u>	<u>1,859,097</u>
Total liabilities	<u>1,967,332</u>	<u>2,050,472</u>
Deferred inflows of resources	<u>1,288</u>	<u>4,271</u>
Invested in capital assets	1,175	512
Restricted net position	430,114	441,196
Unrestricted net position	<u>79,643</u>	<u>72,699</u>
Total net position	<u><u>\$ 510,932</u></u>	<u><u>\$ 514,407</u></u>

2016 to 2015

- THDA's total net position decreased by \$3.4 million because operating income was less than the amount by which nonoperating expenses exceeded nonoperating revenues.
- First and Second mortgage loans (net of allowance for forgivable second mortgages) receivable decreased by \$10.8 million. During FY 2016, single-family mortgage loan originations increased by \$42.7 million, whereas mortgage loan payoffs increased by \$27.4 million and mortgage loan repayments decreased \$2.8 million. In addition, THDA recognized an allowance for future forgiveness of forgivable second mortgages of \$4.9 million for FY 2016.
- Total liabilities decreased \$83.1 million. The decrease is primarily due to a \$72.7 million decrease of bonds payable at June 30, 2016 as compared to June 30, 2015.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

Changes in Net Position. The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	<u>2016</u>	<u>2015</u>
Operating revenues		
Mortgage interest income	\$ 90,235	\$ 96,999
Investment income	5,872	6,535
Other	17,052	16,512
Total operating revenues	<u>113,159</u>	<u>120,046</u>
Operating expenses		
Interest expense	62,045	66,389
Other	41,916	43,932
Total operating expenses	<u>103,961</u>	<u>110,321</u>
Operating income	<u>9,198</u>	<u>9,725</u>
Nonoperating revenues (expenses)		
Grant revenues	269,226	307,012
Grant expenses	<u>(281,899)</u>	<u>(322,465)</u>
Total nonoperating revenues (expenses)	<u>(12,673)</u>	<u>(15,453)</u>
Change in net position	<u>\$ (3,475)</u>	<u>\$ (5,728)</u>

2016 to 2015

Total operating revenues decreased \$6.9 million, primarily due to a decrease in mortgage interest income of \$6.8 million. This is due to new mortgage loan originations having lower interest rates than those associated with mortgage loan repayments.

Total operating expenses decreased \$6.3 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

DEBT ACTIVITY

Bonds outstanding at June 30 were as follows (expressed in thousands):

	<u>2016</u>	<u>2015</u>
Bonds payable	\$1,906,494	\$ 1,979,170

Year Ended June 30, 2016

Total bonds and notes payable decreased \$72.7 million, due primarily to an increase in the redemption of bonds as compared to recent fiscal years. During the fiscal year, THDA issued debt totaling \$306.9 million, with activity arising from two bond issues.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$67.1 million of outstanding bonds into new bond originations with lower interest rates.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard & Poor's Ratings Services (S&P), a division of the The McGraw-Hill Companies, Inc. has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during FY 2016 or FY 2015.

Debt Limits

In accordance with *Tennessee Code Annotated*, 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

GRANT PROGRAMS

During FY 2007 through FY 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors allocated additional THDA funds for grants. These funds established a grant program that was titled by the THDA as the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

	FY 2016	FY 2015	FY 2014 and Prior	Total
<i>Funding Sources:</i>				
THDA	\$ 7,500,000	\$ 7,500,000	\$ 52,300,000	\$ 67,300,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	\$ 7,500,000	\$ 7,500,000	\$ 56,650,000	\$ 71,650,000
<i>Approved Uses:</i>				
Rural repair program (USDA)	\$ -	\$ 700,000	\$ 5,600,000	\$ 6,300,000
Ramp Programs & Hsg Modification	-	150,000	1,200,000	1,350,000
Emergency Repairs	2,700,000	1,800,000	14,000,000	18,500,000
Competitive Grants	2,800,000	2,850,000	31,950,000	37,600,000
Rebuild & Recover	500,000	500,000	2,300,000	3,300,000
Other Grants	1,500,000	1,500,000	1,600,000	4,600,000
Totals	\$ 7,500,000	\$ 7,500,000	\$ 56,650,000	\$ 71,650,000

CURRENT MORTGAGE PRODUCTS AND ENVIRONMENT

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the *Great Choice* and the *Great Choice Plus* loan programs were introduced and the *Great Rate*, *Great Advantage* and *Great Start* loan programs were eliminated. The *Great Choice* loan program offers THDA the opportunity to offer a more competitive interest rate on its 30 year fixed rate mortgage product while still offering down payment assistance with the addition of the *Great Choice Plus* loan program which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the *Great Choice Plus* loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15.

A special interest rate reduction on *Great Choice* loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as "*Homeownership for the Brave*", provides a 0.5% rate reduction on the current interest rate for *Great Choice* loans. In addition to the rate reduction, "*Homeownership for the Brave*" applicants are eligible for optional down payment and closing cost assistance through the *Great Choice Plus* second mortgage loan at a 0% interest rate.

All loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages (ARMs), interest-only mortgages, "buy-down" loans, mortgages with a future lump-sum payment due (balloon-type mortgage), or with other similar mortgage terms. THDA does not make or purchase "sub-prime" mortgage loans.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers, who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor's Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have loan-to-value ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's internet site at <https://thda.org/homebuyers/homebuyers>

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2016, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

<u>Loan Status</u>	<u>Total Number of Loans Serviced</u>	<u>Number of Loans in Status</u>	<u>Principal Amount</u>	<u>Percentage</u>
60-89 Days Past Due	23,492	508	\$ 39,830,107	2.16%
90+ Days Past Due	23,492	1,503	116,348,733	6.40%
In Foreclosure	23,492	148	12,307,322	0.63%

Note: Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

ECONOMIC FACTORS

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a bench-mark, THDA uses the one-, three-, and five-year Constant Maturity Treasury (CMT) rates as established by the United States Treasury.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016

The continuation of relatively low interest rates from a historic perspective increased the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Trent Ridley, Chief Financial Officer at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2016
(Expressed in Thousands)

ASSETS

Current assets:		
Cash and cash equivalents (Note 2)	\$	218,023
Investments (Note 2)		74,211
Receivables:		
Accounts		4,060
Interest		11,944
First mortgage loans		59,075
Due from federal government		26,361
Prepaid expenses		<u>1</u>
Total current assets		<u>393,675</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		13,647
Investments (Note 2)		157,864
Investment interest receivable		1,326
Investments (Note 2)		42,653
First mortgage loans receivable		1,849,432
Second mortgage loans receivable		21,326
Allowance for forgivable second mortgages		(7,808)
Advance to local government		3,107
Net pension asset (Note 6)		13
Capital assets:		
Furniture and equipment		2,631
Less accumulated depreciation		<u>(1,456)</u>
Total noncurrent assets		<u>2,082,735</u>
Total assets		<u>2,476,410</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refundings		981
Deferred outflows related to pensions (Note 6)		<u>2,161</u>
Total deferred outflows of resources		<u>3,142</u>

LIABILITIES

Current liabilities:		
Accounts payable		9,235
Accrued payroll and related liabilities		585
Compensated absences		633
Due to primary government		72
Interest payable		32,300
Escrow deposits		89
Prepayments on mortgage loans		1,161
Due to federal government		1,679
Bonds payable (Note 4)		100,360
Arbitrage rebate payable		<u>3,684</u>
Total current liabilities		<u>149,798</u>
Noncurrent liabilities:		
Bonds payable (Note 4)		1,806,134
Compensated absences		611
Net pension liability (Note 6)		5,429
Net OPEB obligation (Note 10)		1,602
Escrow deposits		3,348
Arbitrage rebate payable		<u>410</u>
Total noncurrent liabilities		<u>1,817,534</u>
Total liabilities		<u>1,967,332</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 6)		<u>1,288</u>
Total deferred inflows of resources		<u>1,288</u>

NET POSITION

Net investment in capital assets		1,175
Restricted for single family bond programs (Note 5 and Note 8)		417,331
Restricted for grant programs (Note 5)		9,617
Restricted for Homebuyers Revolving Loan Program (Note 5)		3,153
Restricted for net pension asset (Note 6)		13
Unrestricted (Note 8)		<u>79,643</u>
Total net position	\$	<u>510,932</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

OPERATING REVENUES

Mortgage interest income	\$ 90,235
Investment income:	
Interest	9,714
Net (decrease) in the fair value of investments	(3,842)
Federal grant administration fees	13,346
Fees and other income	3,706
Total operating revenues	<u>113,159</u>

OPERATING EXPENSES

Salaries and benefits	15,845
Contractual services	4,989
Materials and supplies	1,233
Rentals and insurance	18
Other administrative expenses	571
Other program expenses	9,683
Interest expense	62,045
Mortgage service fees	6,755
Issuance costs	2,311
Depreciation	511
Total operating expenses	<u>103,961</u>
Operating income	<u>9,198</u>

NONOPERATING REVENUES (EXPENSES)

Federal grants revenue	269,217
Other grants revenue	9
Federal grants expenses	(269,057)
Local grants expenses	(12,842)
Total nonoperating revenues (expenses)	<u>(12,673)</u>
Change in net position	<u>(3,475)</u>
Total net position, July 1	<u>514,407</u>
Total net position, June 30	<u>\$ 510,932</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 417,586
Receipts from federal government	12,862
Other miscellaneous receipts	3,706
Acquisition of mortgage loans	(293,475)
Payments to service mortgages	(6,755)
Payments to suppliers	(8,204)
Payments to or for employees	<u>(17,046)</u>
Net cash provided by operating activities	<u>108,674</u>
Cash flows from non-capital financing activities:	
Operating grants received	258,411
Proceeds from sale of bonds	306,902
Operating grants paid	(285,892)
Cost of issuance paid	(2,311)
Principal payments	(373,350)
Interest paid	<u>(68,299)</u>
Net cash used by non-capital financing activities	<u>(164,539)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(1,174)</u>
Net cash used by capital and related financing activities	<u>(1,174)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	332,627
Purchases of investments	(355,001)
Investment interest received	10,008
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	<u>87</u>
Net cash used by investing activities	<u>(12,279)</u>
Net decrease in cash and cash equivalents	(69,318)
Cash and cash equivalents, July 1	<u>300,988</u>
Cash and cash equivalents, June 30	\$ <u><u>231,670</u></u>

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ <u>9,198</u>
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Depreciation	511
Pension expense	566
Changes in assets and liabilities:	
Decrease in accounts receivable	25,537
Decrease in mortgage interest receivable	1,567
(Increase) in deferred pension outflows	(1,586)
Decrease in mortgage loans receivable	10,795
(Increase) in due from federal government	(484)
Increase in accounts payable	2,673
Increase in accrued payroll /	
compensated absences	121
Increase in due to primary government	1
Increase in arbitrage rebate liability	1,291
Investment income (loss) included as operating revenue	(5,872)
Interest expense included as operating expense	62,045
Issuance cost included as operating expense	<u>2,311</u>
Total adjustments	<u>99,476</u>
Net cash provided by operating activities	\$ <u><u>108,674</u></u>
Noncash investing, capital, and financing activities:	
Increase in fair value of investments	\$ <u>68</u>
Total noncash investing, capital, and financing activities	\$ <u><u>68</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cashflows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

d. Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, and Net Pension Assets (see note 6).

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

f. Deferred Amount on Refundings and Bond Premiums and Discounts

1. Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.
2. Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

g. Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

h. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

i. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

j. Mortgages

Mortgages are carried at their original amount less collected principal.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

k. Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

l. Allowance for Forgivable Second Mortgages

THDA has offered Down Payment Assistance (DPA) product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage, loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period.

m. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2016, the bank balance was \$3,921,135.08. All bank balances at June 30, 2016, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2016, \$3,307,357.87 was in the BNYM. Of this amount, \$3,057,357.87 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov.

b. Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Investment Type	June 30, 2016	
	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$131,326,153	0.804
U.S. Treasury Coupon	68,451,345	0.143
U.S. Agency Discount	152,930,920	1.626
Total	<u>\$352,708,418</u>	0.731

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Fair Value Measurements THDA implemented GASB Statement 72 *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2016:

	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets by Fair Value Level	<i>(Thousands)</i>			
Debt securities				
U.S. Agency Coupon	\$131,326	\$-0-	\$131,326	\$-0-
U.S. Treasury Coupon	68,451	68,451	-0-	-0-
U.S. Agency Discount	152,931	-0-	152,931	-0-
Total debt securities	\$352,708	\$68,451	\$284,257	\$-0-

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets as those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets as those securities. Level 3 valuations are derived from valuation techniques in which significant inputs are unobservable.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

Credit Risk Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2016, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

June 30, 2016					
Investment Type	Fair Value	U.S. Treasury ¹	AAA	AA+	Not Rated ²
U.S. Agency Coupon	\$131,326,153		\$2,615,164	128,710,989	
U.S. Treasury Coupon	68,451,345	\$68,451,345			
U.S. Agency Discount	152,930,920				152,930,920
Total	\$352,708,418	\$68,451,345	\$2,615,164	\$128,710,989	\$152,930,920

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

Issuer	June 30, 2016	
	<u>Fair Value</u> <u>(Thousands)</u>	<u>% of</u> <u>Portfolio</u>
Federal Home Loan Bank	\$180,760	51.25
Federal Home Loan Mortgage Corp	\$41,153	11.67
Federal National Mortgage Assoc.	\$59,729	16.93

New GASB 79 Disclosures During fiscal year 2016, Tennessee Housing Development Agency implemented *GASB Statement 79, Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that the Tennessee Housing Development Agency to participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of \$5 million or more.

¹This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

²This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 3. ACCOUNTING CHANGE

During fiscal year 2016, Tennessee Housing Development Agency modified the presentation of certain mortgage loans. Prior to fiscal year 2016, mortgage loans in which a foreclosure sale had occurred was reported as a component of Accounts Receivable. Beginning in fiscal year 2016, mortgage loans in which a foreclosure sale has occurred will be reported as Current Portion, First Mortgage Loans receivable.

NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING (Thousands)				
<i>Series</i>	<i>Maturity Range</i>	<i>Issued Amount</i>	<i>Interest Rate (Percent)</i>	<i>Ending Balance 6/30/2016</i>
HOMEOWNERSHIP PROGRAM BONDS				
2006-3	1/1/2008-7/1/2037	\$100,000	3.65 to 5.75	\$24,060
2007-1	7/1/2008-1/1/2038	100,000	3.65 to 5.50	28,240
2007-2	7/1/2008-7/1/2038	120,000	3.75 to 5.25	34,320
2007-3	1/1/2009-7/1/2038	150,000	3.85 to 5.50	39,295
2007-4	1/1/2009-7/1/2038	150,000	3.75 to 5.50	43,930
2008-1	7/1/2009-1/1/2039	60,000	2.45 to 5.70	17,090
2008-3	7/1/2009-7/1/2038	90,000	2.00 to 5.45	1,270
2009-1	1/1/2010-7/1/2029	50,000	0.75 to 5.00	21,330
2009-2	7/1/2010-7/1/2030	75,000	0.90 to 5.00	29,770
2010-1	1/1/2011-7/1/2025	120,700	0.35 to 4.50	53,775
2011-1	7/1/2012-7/1/2042	141,255	0.60 to 4.65	85,930
2012-1	1/1/2013-7/1/2042	133,110	0.80 to 4.50	85,660
2012-2	7/1/2013-7/1/2043	97,625	0.50 to 4.00	68,845
Total Homeownership Program Bonds		<u>\$1,387,690</u>		\$533,515
Plus: Unamortized Bond Premiums				4,444
Less: Unamortized Bond Discount				(42)
Net Homeownership Program Bonds				<u>\$537,917</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2016</u>
HOUSING FINANCE PROGRAM BONDS				
2009-A	1/1/2011-1/1/2040	\$100,000	0.90 to 4.625	\$14,725
2010-A	1/1/2011-7/1/2041	160,000	0.60 to 5.00	23,170
2010-B	7/1/2011-7/1/2041	100,000	0.45 to 4.50	60,835
2011-A	7/1/2011-7/1/2041	100,000	0.45 to 4.50	17,835
2011-B	7/1/2012-7/1/2041	100,000	0.25 to 4.50	64,995
2011-C	7/1/2012-7/1/2041	100,000	0.40 to 4.30	64,395
2015-A	1/1/2016-7/1/2045	150,000	0.30 to 3.85	143,050
Total Housing Finance Program Bonds		<u>\$810,000</u>		\$389,005
Plus: Unamortized Bond Premiums				4,409
Net Housing Finance Program Bonds				<u>\$393,414</u>

BONDS ISSUED AND OUTSTANDING				
(Thousands)				
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>	<u>Ending Balance 6/30/2016</u>
RESIDENTIAL FINANCE PROGRAM BONDS				
2013-1	1/1/2014-7/1/2043	\$215,905	0.40 to 4.00	\$148,735
2013-2	7/1/2014-7/1/2043	121,300	0.45 to 4.65	94,435
2014-1	1/1/2015-7/1/2039	150,000	0.32 to 4.00	129,860
2014-2	7/1/2015-7-1-2045	150,000	0.25 to 4.00	135,780
2015-1	1/1/2016-7/1/2045	150,000	0.50 to 4.05	144,290
2015-2	7/1/2016-1/1/2046	175,000	0.40 to 4.00	175,000
2016-1	1/1/2017-1/1/2047	125,000	0.625 to 3.50	125,000
Total Residential Finance Program Bonds		<u>\$1,087,205</u>		\$953,100
Plus: Unamortized Bond Premiums				22,063
Net Residential Finance Program Bonds				<u>\$975,163</u>
Net Total All Issues				<u>\$1,906,494</u>

Housing Finance Program Bonds The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program (NIBP), which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2016, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2017	\$36,555	\$65,913	\$102,468
2018	62,810	65,922	128,732
2019	65,295	64,018	129,313
2020	66,785	61,979	128,764
2021	71,065	59,768	130,833
2022 – 2026	369,900	260,532	630,432
2027 – 2031	343,540	194,038	537,578
2032 – 2036	367,480	125,252	492,732
2037 – 2041	325,135	60,915	386,050
2042 - 2046	167,055	13,778	180,833
Total	<u>\$1,875,620</u>	<u>\$972,115</u>	<u>\$2,847,735</u>

c. Redemption of Bonds and Notes

During the year ended June 30, 2016, bonds were retired at par before maturity in the Homeownership Program in the amount of \$70,935,000, in the Housing Finance Program in the amount of \$84,975,000, and in the Residential Finance Program in the amount of \$26,440,000. The respective carrying values of the bonds were \$71,940,410,

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

\$85,625,000 and \$27,205,277. This resulted in revenue to the Homeownership Program of \$1,005,410 to the Housing Finance Program of \$650,069, and to the Residential Finance Program of \$765,277.

On June 11, 2016, the agency issued \$150,000,000 in Residential Finance Program Bonds, Issue 2015-1. On January 1, 2016, the agency used \$27,395,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$27,395,000 early redemption). The carrying amount of these bonds was \$27,395,000. The refunding reduced the agency's debt service by \$12,273,421 over the next 20.0 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$4,089,664.

On October 15, 2015, the agency issued \$175,000,000 in Residential Finance Program Bonds, Issue 2015-2. On January 1, 2016, the agency used \$43,070,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$43,070,000 early redemption). The carrying amount of these bonds was \$43,184,624. The refunding reduced the agency's debt service by \$17,407,979 over the next 20.0 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$5,246,191.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2016.

Long-term Liabilities					
(Thousands)					
	Beginning Balance July 1, 2015	Additions	Reductions	Ending Balance June 30, 2016	Amounts Due Within One Year³
Bonds Payable	\$1,948,970	\$300,000	(\$373,350)	\$1,875,620	\$100,360
Plus: Unamortized Bond Premiums	30,333	6,897	(6,314)	30,916	-0-
Less: Unamortized Bond Discounts	(133)	-0-	91	(42)	-0-
Compensated Absences	1,207	129	(92)	1,244	633
Net Pension Liability	2,964	4,176	(1,711)	5,429	-0-
Escrow Deposits	2,553	2,322	(1,438)	3,437	89
Arbitrage Rebate Payable	2,803	1,291	(-0-)	4,094	3,684
Total	\$1,988,697	\$314,815	(\$382,814)	\$1,920,698	\$104,766

³Amounts due within one year include management authorized bond refundings at June 30.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 5. RESTRICTED NET POSITION

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

NOTE 6. PENSION PLANS

a. Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided Title 8, Chapters 34-37, *Tennessee Code Annotated* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%

Plus:

Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Tennessee Housing Development Agency employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Employee Pension Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2016 to the Closed State and Higher Education Employee Pension Plan were \$1,539,003 which is 15.03 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability At June 30, 2016, Tennessee Housing Development Agency reported a liability of \$5,428,475 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension liability was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2015 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015 measurement date, Tennessee Housing Development Agency's proportion was 0.421046 percent. The proportion measured as of June 30, 2014 was 0.429581

Pension expense For the year ended June 30, 2016, Tennessee Housing Development Agency recognized a pension expense of \$554,977. Allocated pension expense was \$583,722 before being reduced by \$28,745 due to a change in proportionate share.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2016, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 574,421	\$ 470,017
Net difference between projected and actual earnings on pension plan investments	—	697,846
Changes in proportion	—	114,978
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2015	1,539,003	—
Total	<u>\$ 2,113,424</u>	<u>\$ 1,282,841</u>

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of \$1,539,003 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2017	\$ (438,708.49)
2018	(438,708.49)
2019	(438,708.49)
2020	607,705.99
2021	-
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Actuarial assumptions The total pension liability as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	\$ 12,719,744	\$ 5,428,475	\$ (716,661)

Pension plan fiduciary net position Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2016, Tennessee Housing Development Agency reported a payable of \$128,363 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2016.

b. State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014 and covers employees hired before July 1, 2014. Employees hired after June 30, 2014 are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Benefits provided Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation by 1.0 percent multiplied by member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2016 to the State and Higher Education Employee Retirement Plan were \$46,706 which is 2.81 percent of covered payroll. The employer rate is 3.87% of covered payroll except for any salaries derived from Federal funds where the employer rate is 2.00%. The

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset At June 30, 2016, Tennessee Housing Development Agency reported an asset of \$12,713 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. Tennessee Housing Development Agency's proportion of the net pension asset was based on a projection of Tennessee Housing Development Agency's contributions during the year ended June 30, 2015 to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015 measurement date, Tennessee Housing Development Agency's proportion was 0.457171 percent, representing the first time presentation of this proportion.

Pension expense For the year ended June 30, 2016, Tennessee Housing Development Agency (THDA) recognized a pension expense of \$10,546.

Deferred outflows of resources and deferred inflows of resources For the year ended June 30, 2016, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ 4,730
Net difference between projected and actual earnings on pension plan investments	737	—
Tennessee Housing Development Agency's contributions subsequent to the measurement date of June 30, 2015	46,706	—
Total	<u>\$ 47,443</u>	<u>\$ 4,730</u>

Deferred outflows of resources, resulting from Tennessee Housing Development Agency's employer contributions of \$46,706 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2017. Other

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2017	\$	(407)
2018		(407)
2019		(407)
2020		(407)
2021		(591)
Thereafter		(1,774)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions The total pension asset as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate The following presents Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Tennessee Housing Development Agency's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

**TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Tennessee Housing Development Agency's proportionate share of the net pension liability (asset)	\$ (4,995)	\$ (12,713)	\$ (18,490)

Payable to the Pension Plan

At June 30, 2016, THDA reported a payable of \$13,189 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

c. Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2016 for both defined benefit pension plans was \$565,523.

NOTE 7. DEFERRED COMPENSATION PLANS

The Tennessee Housing Development Agency, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to IRC, Section 457 and the other pursuant to IRC, Section 401(k). The plans are outsourced to third party vendors and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The Tennessee Housing Development Agency provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014 voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of *Public Acts of 2013*, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

The Tennessee Housing Development Agency recognized a pension expense of \$186,417 for employer contributions.

NOTE 8. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

NOTE 9. INSURANCE-RELATED ACTIVITIES

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b. Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property and crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2016, is presented in the *Tennessee Comprehensive Annual Financial Report*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2016, the Risk Management Fund held \$142.9 million in cash designated for payment of claims

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans - the State

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* Section 8-27-201. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. Any employee hired on or after July 1, 2015 is not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation - The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including the Tennessee Housing Development Agency (see Note 11). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy - The premium requirements of plan members of the State Employment Group Plan are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan, adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 25 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retirees 65 years of age or older are provided flat-rate premium subsidies, based on years of service. Retirees with 30 years of service receive \$50 per month; retirees with 25 but less than 30 years of service, \$37.50; and retirees with 15 but less than 20 years of service, \$25.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

THDA Annual OPEB Cost and Net OPEB Obligation State Employee Group Plan (Thousands)

June 30, 2016

Annual Required Contribution (ARC)	\$341
Interest on the Net OPEB Obligation	57
Adjustment to the ARC	(57)
Annual OPEB cost	341
Amount of contribution	(255)
Increase in Net OPEB Obligation	86
Net OPEB Obligation-beginning of year	1,516
Net OPEB Obligation-end of year	\$1,602

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost (Thousands)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation At Year End (Thousands)</u>
6/30/2016	State Employee Group Plan	\$ 341	74%	\$ 1,602
6/30/2015	State Employee Group Plan	\$ 357	71%	\$ 1,516
6/30/2014	State Employee Group Plan	\$ 346	68%	\$ 1,413

Funded Status and Funding Progress The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2015, was as follows (thousands):

Actuarial valuation date	7/01/2015
Actuarial accrued liability (AAL)	\$ 2,923
Actuarial value of plan assets	-0-
Unfunded actuarial accrued liability (UAAL)	\$ 2,923
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 10,046
UAAL as a percentage of covered payroll	29%

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2015, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreases to 6% in fiscal year 2016, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

NOTE 11. ON-BEHALF PAYMENTS

During the year ended June 30, 2016, the State of Tennessee made payments of \$6,488 on behalf of THDA for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

NOTE 12. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

NOTE 13. SUBSEQUENT EVENTS

- a. Residential Finance Program Bonds, Issue 2016-3, were authorized by the Board of directors on September 20, 2016, not to exceed \$66,165,000. The sale of the Bonds will occur no later than December 31, 2016.
- b. Residential Finance Bonds, Issue 2016-2, were sold on October 18, 2016. The bond maturities are as follow:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
<u>Series</u>	<u>Maturity Range</u>	<u>Amount</u>	<u>Rate</u>
			<u>(Percent)</u>
2016-2	7/1/2017-1/1/2047	\$125,000	0.720 to 3.500

- c. Residential Finance Bonds, Issue 2016-3, were sold on November 17, 2016. The bond maturities are as follow:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
<u>Series</u>	<u>Maturity Range</u>	<u>Amount</u>	<u>Rate</u>
			<u>(Percent)</u>
2016-3	7/1/2017-7/1/2031	\$62,000	1.000 to 3.500

NOTE 14. EVENTS (UNAUDITED) SUBSEQUENT TO THE DATE OF THE INDEPENDENT AUDITOR'S REPORT

- a. Residential Finance Program Bonds, Issue 2017-1, were authorized by the Board of directors on January 24, 2017, not to exceed \$100,000,000. The sale of the Bonds will occur no later than June 30, 2017.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

- b. Residential Finance Program Bonds, Issue 2017-2, were authorized by the Board of directors on March 28, 2017, not to exceed \$200,000,000. The sale of the Bonds will occur no later than September 30, 2017.
- c. Residential Finance Bonds, Issue 2017-1, were sold on March 30, 2017. The bond maturities are as follow:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
<u>Series</u>	<u>Maturity Range</u>	<u>Amount</u>	<u>Rate</u>
			<u>(Percent)</u>
2017-1	1/1/2018-7/1/2042	\$100,000	0.950 to 4.000

- d. Residential Finance Bonds, Issue 2017-2, were sold on June 27, 2017. The bond maturities are as follow:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
<u>Series</u>	<u>Maturity Range</u>	<u>Amount</u>	<u>Rate</u>
			<u>(Percent)</u>
2017-2	1/1/2018-1/1/2042	\$175,000	0.900 to 4.000

- e. Residential Finance Program Bonds, Issue 2017-3, were authorized by the Board of directors on July 25, 2017, not to exceed \$100,000,000. The sale of the Bonds will occur no later than December 31, 2017.
- f. Residential Finance Program Bonds, Issue 2017-4, were authorized by the Board of directors on September 26, 2017, not to exceed \$100,000,000. The sale of the Bonds will occur no later than February 28, 2018.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

- g.** Residential Finance Bonds, Issue 2017-3, were sold on September 28, 2017. The bond maturities are as follow:

BONDS ISSUED (Thousands)			
<u>Series</u>	<u>Maturity Range</u>	<u>Issued Amount</u>	<u>Interest Rate (Percent)</u>
2017-3	7/1/2018-1/1/2048	\$99,900	0.800 to 3.500

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET
STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA;s Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
2016	0.457171%	\$ 13	498	2.60%	142.55%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.421046%	\$ 5,429	\$ 10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of informjamation is available

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
STATE AND HIGHER EDUCATION EMPLOYEE RETIREMENT PLAN
(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA;s Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2016	\$ 47	\$ 47	\$ -	\$ 1,661	2.81%
2015	19	19	-	498	3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TENNESSEE HOUSING DEVELOPMENT AGENCY'S CONTRIBUTIONS
CLOSED STATE AND HIGHER EDUCATION EMPLOYEE PENSION PLAN WITHIN TCRS
(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2016	\$ 1,539	\$ 1,539	\$ -	\$ 10,240	15.03%
2015	1,652	1,652	-	10,994,	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%
2009	1,201	1,201	-	9,224	13.02%
2008	1,297	1,297	-	9,522	13.62%
2007	1,175	1,175	-	8,627	13.62%

TENNESSEE HOUSING DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYEE BENEFITS SCHEDULE OF FUNDING PROGRESS
(Expressed in Thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2011	State Employee Group Plan	\$ -0-	\$ 2,919	\$ 2,919	0%	\$ 9,818	30%
7/1/2013	State Employee Group Plan	\$ -0-	\$ 2,964	\$ 2,964	0%	\$ 9,841	30%
7/1/2015	State Employee Group Plan	\$ -0-	\$ 2,923	\$ 2,923	0%	\$10,046	29%

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2016
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,897	\$ 11,071	\$ 78,576	\$ 31,284	\$ 94,195	\$ 218,023
Investments	-	6,594	10,594	9,395	47,628	74,211
Receivables:						
Accounts	232	359	2,235	537	697	4,060
Interest	-	29	4,522	3,021	4,372	11,944
First mortgage loans	-	1,949	23,393	9,990	23,743	59,075
Due from federal government	26,361	-	-	-	-	26,361
Due from other funds	2,189	-	-	-	-	2,189
Prepaid expenses	1	-	-	-	-	1
Total current assets	31,680	20,002	119,320	54,227	170,635	395,864
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	3,299	-	4,278	3,443	2,627	13,647
Investments	-	-	105,430	17,991	34,443	157,864
Investment Interest receivable	-	-	1,186	33	107	1,326
Investments	-	7,474	501	1,799	32,879	42,653
First mortgage loans receivable	717	46,066	562,052	372,924	867,673	1,849,432
Second mortgage loans receivable	-	-	21,326	-	-	21,326
Allowance for forgivable second mortgage	-	-	(7,808)	-	-	(7,808)
Advance to local government	3,107	-	-	-	-	3,107
Net pension asset	13	-	-	-	-	13
Capital assets:						
Furniture and equipment	2,631	-	-	-	-	2,631
Less accumulated depreciation	(1,456)	-	-	-	-	(1,456)
Total noncurrent assets	8,311	53,540	686,965	396,190	937,729	2,082,735
Total assets	39,991	73,542	806,285	450,417	1,108,364	2,478,599
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	759	981
Deferred outflows related to pensions	2,161	-	-	-	-	2,161
Total deferred outflows of resources	2,161	-	222	-	759	3,142
LIABILITIES						
Current liabilities:						
Accounts payable	9,217	2	12	-	4	9,235
Accrued payroll and related liabilities	585	-	-	-	-	585
Investments purchased	-	-	-	-	-	-
Compensated absences	633	-	-	-	-	633
Due to primary government	72	-	-	-	-	72
Interest payable	-	-	11,236	6,596	14,468	32,300
Escrow deposits	-	89	-	-	-	89
Prepayments on mortgage loans	-	-	399	196	566	1,161
Due to federal government	1,679	-	-	-	-	1,679
Due to other funds	-	-	2,065	-	124	2,189
Bonds payable	-	-	52,870	17,295	30,195	100,360
Arbitrage rebate payable	-	-	3,684	-	-	3,684
Total current liabilities	12,186	91	70,266	24,087	45,357	151,987
Noncurrent liabilities:						
Bonds payable	-	-	485,047	376,119	944,968	1,806,134
Compensated absences	611	-	-	-	-	611
Net pension liability	5,429	-	-	-	-	5,429
Net OPEB obligation	1,602	-	-	-	-	1,602
Escrow deposits	336	509	-	-	2,503	3,348
Arbitrage rebate payable	-	-	410	-	-	410
Total noncurrent liabilities	7,978	509	485,457	376,119	947,471	1,817,534
Total liabilities	20,164	600	555,723	400,206	992,828	1,969,521
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	1,288	-	-	-	-	1,288
Total deferred inflows of resources	1,288	-	-	-	-	1,288
NET POSITION						
Net investment in capital assets	1,175	-	-	-	-	1,175
Restricted for single family bond programs	-	41	250,784	50,211	116,295	417,331
Restricted for grant programs	-	9,617	-	-	-	9,617
Restricted for Homebuyers Revolving Loan	3,153	-	-	-	-	3,153
Restricted for net pension asset	13	-	-	-	-	13
Unrestricted	16,359	63,284	-	-	-	79,643
Total net position	\$ 20,700	\$ 72,942	\$ 250,784	\$ 50,211	\$ 116,295	\$ 510,932

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ 11	\$ 51	\$ 34,588	\$ 19,159	\$ 36,426	\$ 90,235
Investment income:						
Interest	38	200	6,847	618	2,011	9,714
Net increase (decrease) in the fair value of investments	-	(129)	(3,519)	126	(320)	(3,842)
Federal grant administration fees	13,346	-	-	-	-	13,346
Fees and other income	2,753	-	-	-	953	3,706
Total operating revenues	16,148	122	37,916	19,903	39,070	113,159
OPERATING EXPENSES						
Salaries and benefits	15,845	-	-	-	-	15,845
Contractual services	4,976	-	-	-	13	4,989
Materials and supplies	1,233	-	-	-	-	1,233
Rentals and insurance	18	-	-	-	-	18
Other administrative expenses	571	-	-	-	-	571
Other program expenses	323	65	7,993	158	1,144	9,683
Interest expense	-	-	23,713	13,456	24,876	62,045
Mortgage service fees	-	92	2,260	1,436	2,967	6,755
Issuance costs	-	-	-	-	2,311	2,311
Depreciation	511	-	-	-	-	511
Total operating expenses	23,477	157	33,966	15,050	31,311	103,961
Operating income (loss)	(7,329)	(35)	3,950	4,853	7,759	9,198
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	269,217	-	-	-	-	269,217
Other grant revenue	-	9	-	-	-	9
Federal grants expenses	(269,057)	-	-	-	-	(269,057)
Local grants expenses	(12,842)	-	-	-	-	(12,842)
Total nonoperating revenues (expenses)	(12,682)	9	-	-	-	(12,673)
Income (loss) before transfers	(20,011)	(26)	3,950	4,853	7,759	(3,475)
Transfers (to) other funds	-	-	(42,180)	-	-	(42,180)
Transfers from other funds	19,351	6,517	-	8,831	7,481	42,180
Change in net position	(660)	6,491	(38,230)	13,684	15,240	(3,475)
Total net position, July 1	21,360	66,451	289,014	36,527	101,055	514,407
Total net position, June 30	\$ 20,700	\$ 72,942	\$ 250,784	\$ 50,211	\$ 116,295	\$ 510,932

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ -	\$ 3,210	\$ 211,158	\$ 92,903	\$ 110,315	\$ 417,586
Receipts from federal government	12,862	-	-	-	-	12,862
Receipts from other funds	1,299	-	-	-	-	1,299
Other miscellaneous receipts	2,753	-	-	-	953	3,706
Acquisition of mortgage loans	-	(2,627)	(16,894)	-	(273,954)	(293,475)
Payments to service mortgages	-	(92)	(2,260)	(1,436)	(2,967)	(6,755)
Payments to suppliers	(4,980)	(65)	(1,800)	(179)	(1,180)	(8,204)
Payments to other funds	-	-	-	-	(1,299)	(1,299)
Payments to or for employees	(17,046)	-	-	-	-	(17,046)
Net cash provided (used) by operating activities	(5,112)	426	190,204	91,288	(168,132)	108,674
Cash flows from non-capital financing activities:						
Operating grants received	258,403	8	-	-	-	258,411
Transfers in (out)	19,351	6,517	4,178	8,831	(38,877)	-
Proceeds from sale of bonds	-	-	-	-	306,902	306,902
Operating grants paid	(285,892)	-	-	-	-	(285,892)
Cost of issuance paid	-	-	-	-	(2,311)	(2,311)
Principal payments	-	-	(210,520)	(85,445)	(77,385)	(373,350)
Interest paid	-	-	(30,732)	(13,674)	(23,893)	(68,299)
Net cash provided (used) by non-capital financing activities	(8,138)	6,525	(237,074)	(90,288)	164,436	(164,539)
Cash flows from capital and related financing activities:						
Purchases of capital assets	(1,174)	-	-	-	-	(1,174)
Net cash used by capital and related financing activities	(1,174)	-	-	-	-	(1,174)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	18,199	153,221	33,007	200,972	405,399
Purchases of investments	-	(27,712)	(137,209)	(40,381)	(222,471)	(427,773)
Investment interest received	38	205	7,057	685	2,023	10,008
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	39	18	30	87
Net cash provided (used) by investing activities	38	(9,308)	23,108	(6,671)	(19,446)	(12,279)
Net decrease in cash and cash equivalents	(14,386)	(2,357)	(23,762)	(5,671)	(23,142)	(69,318)
Cash and cash equivalents, July 1	20,582	13,428	106,616	40,398	119,964	300,988
Cash and cash equivalents, June 30	\$ 6,196	\$ 11,071	\$ 82,854	\$ 34,727	\$ 96,822	\$ 231,670

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (7,329)	\$ (35)	\$ 3,950	\$ 4,853	\$ 7,759	\$ 9,198
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	511	-	-	-	-	511
Pension expense	566	-	-	-	-	566
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(229)	85	13,102	9,722	2,857	25,537
(Increase) decrease in mortgage interest receivable	21	25	1,723	578	(780)	1,567
(Increase) in deferred pension outflows	(1,586)	-	-	-	-	(1,586)
(Increase) decrease in mortgage loans receivable	133	395	149,884	63,483	(203,100)	10,795
(Increase) in due from federal government	(484)	-	-	-	-	(484)
Decrease in interfund receivables	1,299	-	-	-	-	1,299
(Decrease) in interfund payables	-	-	-	-	(1,299)	(1,299)
Increase (decrease) in accounts payable	1,902	27	(131)	(60)	935	2,673
Increase in accrued payroll / compensated absences	121	-	-	-	-	121
Increase in due to primary government	1	-	-	-	-	1
Increase in arbitrage rebate liability	-	-	1,291	-	-	1,291
Investment income included as operating revenue	(38)	(71)	(3,328)	(744)	(1,691)	(5,872)
Interest expense included as operating expense	-	-	23,713	13,456	24,876	62,045
Issuance cost included as operating expense	-	-	-	-	2,311	2,311
Total adjustments	<u>2,217</u>	<u>461</u>	<u>186,254</u>	<u>86,435</u>	<u>(175,891)</u>	<u>99,476</u>
Net cash provided (used) by operating activities	\$ <u>(5,112)</u>	\$ <u>426</u>	\$ <u>190,204</u>	\$ <u>91,288</u>	\$ <u>(168,132)</u>	\$ <u>108,674</u>
Noncash investing, capital, and financing activities:						
Increase (decrease) in fair value of investments	\$ -	\$ 6	\$ 559	\$ (220)	\$ (277)	\$ 68
Total noncash investing, capital, and financing activities	\$ <u>-</u>	\$ <u>6</u>	\$ <u>559</u>	\$ <u>(220)</u>	\$ <u>(277)</u>	\$ <u>68</u>

***UNAUDITED FINANCIAL
INFORMATION***

June 30, 2017

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

June 30, 2017

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 6/30/2017
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 292	\$ 20,592	\$ 42,719	\$ 32,791	\$ 165,828	\$ 262,222
Investments	-	598	9,620	4,577	46,551	61,346
Receivables:						
Accounts	-	211	-	-	782	993
Interest	-	19	2,561	2,560	6,391	11,531
First mortgage loans	156	2,087	17,772	9,326	32,995	62,336
Due from federal government	28,186	-	-	-	-	28,186
Due from other funds	1,863	-	-	-	427	2,290
Prepaid Expenses	1	-	-	-	-	1
Total current assets	30,498	23,507	72,672	49,254	252,974	428,905
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	30,424	-	47,337	7,509	20,780	106,050
Investments	-	-	56,784	13,697	25,257	95,738
Investment interest receivable	-	-	769	48	64	881
Investments	-	1,787	-	-	47,348	49,135
First mortgage loans receivable	544	47,969	328,173	310,642	1,183,549	1,870,877
Second mortgage loans receivable	-	-	30,559	-	-	30,559
Allowance for forgivable second mortgages	-	-	(9,984)	-	-	(9,984)
Advance to local government	3,124	-	-	-	-	3,124
Net pension asset	13	-	-	-	-	13
Capital assets:						
Furniture and equipment	3,565	-	-	-	-	3,565
Less accumulated depreciation	(1,756)	-	-	-	-	(1,756)
Total noncurrent assets	35,914	49,756	453,638	331,896	1,276,998	2,148,202
Total assets	66,412	73,263	526,310	381,150	1,529,972	2,577,107
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	640	862
Deferred outflows related to pensions	2,161	-	-	-	-	2,161
Total deferred outflows of resources	2,161	-	222	-	640	3,023
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 11,307	\$ 2	\$ 1,221	\$ 779	\$ 50	\$ 13,359
Accrued payroll and related liabilities	632	-	-	-	-	632
Compensated absences	667	-	-	-	-	667
Due to primary government	73	-	-	-	-	73
Interest payable	-	-	6,463	5,414	17,978	29,855
Escrow deposits	1,536	-	-	-	-	1,536
Prepayments on mortgage loans	10	-	235	175	859	1,279
Due to federal government	26,301	-	-	-	-	26,301
Due to other funds	-	-	2,290	-	-	2,290
Bonds payable	-	-	52,990	13,485	44,945	111,420
Total current liabilities	40,526	2	63,199	19,853	63,832	187,412
Noncurrent liabilities:						
Bonds payable	-	-	273,162	308,251	1,287,623	1,869,036
Compensated absences	647	-	-	-	-	647
Net pension liability	5,429	-	-	-	-	5,429
Net OPEB obligation	1,661	-	-	-	-	1,661
Escrow deposits	608	120	-	-	3,127	3,855
Arbitrage rebate payable	-	-	1,110	-	-	1,110
Total noncurrent liabilities	8,345	120	274,272	308,251	1,290,750	1,881,738
Total liabilities	48,871	122	337,471	328,104	1,354,582	2,069,150
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	1,288	-	-	-	-	1,288
Total deferred inflows of resources	1,288	-	-	-	-	1,288
NET POSITION						
Net investment in capital assets	1,809	-	-	-	-	1,809
Restricted for single family bond programs	-	-	189,061	53,046	176,030	418,137
Restricted for grant programs	-	9,310	-	-	-	9,310
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for net pension asset	-	-	-	-	-	-
Unrestricted	13,452	63,831	-	-	-	77,283
Total net position	\$ 18,414	\$ 73,141	\$ 189,061	\$ 53,046	\$ 176,030	\$ 509,692

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Year Ended June 30, 2017

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 6/30/2017
OPERATING REVENUES						
Mortgage interest income	\$ -	\$ 44	\$ 22,459	\$ 16,162	\$ 49,298	\$ 87,963
Investment income:						
Interest	71	110	4,863	658	1,617	7,319
Net increase (decrease) in the fair value of investments	-	(6)	(4,464)	(314)	(792)	(5,576)
Federal grant administration fees	13,784	-	-	-	-	13,784
Fees and other income	3,909	-	-	-	853	4,762
Total operating revenues	17,764	148	22,858	16,506	50,976	108,252
OPERATING EXPENSES						
Salaries and benefits	18,678	-	-	-	-	18,678
Contractual services	5,664	-	-	-	1	5,665
Materials and supplies	1,576	-	-	-	-	1,576
Rentals and insurance	25	-	-	-	-	25
Other administrative expenses	694	-	-	-	-	694
Other program expenses	602	2	3,440	260	969	5,273
Interest expense	10	-	15,401	10,939	30,542	56,892
Mortgage service fees	-	106	1,232	1,196	3,857	6,391
Issuance costs	-	-	-	-	3,602	3,602
Depreciation	350	-	-	-	-	350
Total operating expenses	27,599	108	20,073	12,395	38,971	99,146
Operating income (loss)	(9,835)	40	2,785	4,111	12,005	9,106
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	277,873	-	-	-	-	277,873
Other grant revenue	-	4	-	-	-	4
Federal grants expenses	(277,717)	-	-	-	-	(277,717)
Local grants expenses	(10,506)	-	-	-	-	(10,506)
Total nonoperating revenues (expenses)	(10,350)	4	-	-	-	(10,346)
Income (loss) before transfers	(20,185)	44	2,785	4,111	12,005	(1,240)
Transfers (to) other funds	-	-	(64,508)	(1,276)	-	(65,784)
Transfers from other funds	17,899	155	-	-	47,730	65,784
Change in net position	(2,286)	199	(61,723)	2,835	59,735	(1,240)
Total net position, July 1	20,700	72,942	250,784	50,211	116,295	510,932
Total net position, End of period	\$ 18,414	\$ 73,141	\$ 189,061	\$ 53,046	\$ 176,030	\$ 509,692

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Year Ended June 30, 2017

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 6/30/2017
Cash flows from operating activities:						
Receipts from customers	\$ 2,050	\$ 2,725	\$ 125,063	\$ 80,599	\$ 176,128	\$ 386,565
Receipts from federal government	13,867	-	-	-	-	13,867
Receipts from other funds	326	-	225	-	-	551
Other miscellaneous receipts	3,909	-	-	-	853	4,762
Acquisition of mortgage loans	-	(5,052)	(20,848)	-	(299,957)	(325,857)
Payments to service mortgages	-	(106)	(1,232)	(1,196)	(3,857)	(6,391)
Payments to suppliers	(8,921)	(2)	-	-	(924)	(9,847)
Payments to federal government	-	-	(3,684)	-	-	(3,684)
Payments to other funds	-	-	-	-	(551)	(551)
Payments to or for employees	(18,852)	-	-	-	-	(18,852)
Net cash provided (used) by operating activities	(7,621)	(2,435)	99,524	79,403	(128,308)	40,563
Cash flows from non-capital financing activities:						
Operating grants received	300,587	4	-	-	-	300,591
Transfers in (out)	17,898	155	88,447	(1,276)	(105,224)	-
Proceeds from sale of bonds	-	-	-	-	473,792	473,792
Operating grants paid	(285,422)	-	-	-	-	(285,422)
Call premium paid	-	-	-	-	(36)	(36)
Cost of issuance paid	-	-	-	-	(3,602)	(3,602)
Principal payments	-	-	(210,180)	(70,790)	(112,600)	(393,570)
Interest paid	(10)	-	(21,529)	(13,009)	(30,894)	(65,442)
Net cash provided (used) by non-capital financing activities	33,053	159	(143,262)	(85,075)	221,436	26,311
Cash flows from capital and related financing activities:						
Purchases of capital assets	(983)	-	-	-	-	(983)
Net cash used by capital and related financing activities	(983)	-	-	-	-	(983)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	34,940	161,404	37,423	156,115	389,882
Purchases of investments	-	(23,270)	(115,803)	(26,865)	(161,232)	(327,170)
Investment interest received	71	120	5,285	648	1,656	7,780
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	7	54	39	119	219
Net cash provided (used) by investing activities	71	11,797	50,940	11,245	(3,342)	70,711
Net increase in cash and cash equivalents	24,520	9,521	7,202	5,573	89,786	136,602
Cash and cash equivalents, July 1	6,196	11,071	82,854	34,727	96,822	231,670
Cash and cash equivalents, End of period	\$ 30,716	\$ 20,592	\$ 90,056	\$ 40,300	\$ 186,608	\$ 368,272

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Year Ended June 30, 2017

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 6/30/2017
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (9,835)	\$ 40	\$ 2,785	\$ 4,111	\$ 12,005	\$ 9,106
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	350	-	-	-	-	350
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	232	148	2,235	537	(85)	3,067
(Increase) decrease in mortgage interest receivable	-	-	1,956	456	(2,014)	398
(Increase) decrease in mortgage loans receivable	-	(2,041)	79,260	62,946	(171,945)	(31,780)
Decrease in due from federal government	83	-	-	-	-	83
Decrease in interfund receivables	326	-	225	-	-	551
(Decrease) in interfund payables	-	-	-	-	(551)	(551)
Increase (decrease) in accounts payable	1,107	(478)	1,045	758	963	3,395
(Decrease) in arbitrage rebate payable	-	-	(2,984)	-	-	(2,984)
Increase in accrued payroll / compensated absences	176	-	-	-	-	176
Increase in due to primary government	1	-	-	-	-	1
Investment income included as operating revenue	(71)	(104)	(399)	(344)	(825)	(1,743)
Interest expense included as operating expense	10	-	15,401	10,939	30,542	56,892
Issuance cost included as operating expense	-	-	-	-	3,602	3,602
Total adjustments	<u>2,214</u>	<u>(2,475)</u>	<u>96,739</u>	<u>75,292</u>	<u>(140,313)</u>	<u>31,457</u>
Net cash provided (used) by operating activities	<u>\$ (7,621)</u>	<u>\$ (2,435)</u>	<u>\$ 99,524</u>	<u>\$ 79,403</u>	<u>\$ (128,308)</u>	<u>\$ 40,563</u>
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	-	\$ (3)	\$ (834)	\$ (181)	\$ (2,093)	(3,111)
Total noncash investing, capital, and financing activities	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ (834)</u>	<u>\$ (181)</u>	<u>\$ (2,093)</u>	<u>\$ (3,111)</u>

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS AND SERVICERS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the “Working Agreements”). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA’s security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA’s rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent’s privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the “O. A. Guide”), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA currently has an agreement with U.S. Bank (the “Servicer”) to service Program Loans (the “Servicing Agreement”). U.S. Bank services approximately 90% of THDA’s entire portfolio of mortgage loans made or purchased with bond proceeds. The Servicing Agreement provides for the collection and remittance of Program Loan payments to THDA or a designated depository. Prior to remittance, the Servicer deducts a servicing fee, late charges and amounts to be held in escrow accounts for real property taxes, mortgage and hazard insurance premiums, and assessments. The servicing fee under the current Servicing Agreement is 3/8% annually. The Servicer is required to notify THDA in the event of any default on a Program Loan, and the Servicer may conduct foreclosure proceedings with the consent and at the expense of THDA. The Servicer is required to repurchase any Program Loan from THDA at any time THDA

suffers or is threatened with a material loss by reason of the Servicer's failure to perform its obligations under the Servicing Agreement. THDA may also terminate a Servicing Agreement for inadequate performance by the Servicer.

THDA began self-servicing the mortgage loan portfolio previously serviced by Pinnacle Bank through a division of THDA called Volunteer Mortgage Loan Servicing ("VMLS"). VMLS began servicing the former Pinnacle Bank portion of the THDA mortgage loan portfolio as of November 1, 2016. THDA began servicing new production loans from its largest Originating Agent on June 1, 2017. THDA provided notice to all Originating Agents about delivering new THDA loans to VMLS for servicing in accordance with a schedule that THDA anticipates will result in all new THDA loans being serviced by THDA on or about April 1, 2018. THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

Guide for Servicers

THDA provides each Servicer with a Guide for Servicers (the "Servicer Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax requirements. The Servicer Guide includes substantive servicing requirements, incorporates the limitation on assumption of mortgages contained in the federal tax code, and specifies the procedures to be followed by the Servicer to comply with THDA requirements and the federal tax code. The Servicer Guide also includes a list of the documents that must be maintained by the Servicer, copies of all THDA's servicing and loan assumption forms, together with instructions for their completion and a schedule for the submission of the required forms and reports to THDA.

THDA requires monthly reports from Servicers. Each Servicer's performance is monitored and its servicing record is subject to examination by THDA's staff. Examinations are performed monthly from documentation received from the Servicer.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the “General Residential Finance Program Bond Resolution.”

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

“*Account*” means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

“*Accountant*” means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

“*Act*” means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

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

“*Authorized Officer*” means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

“*Bond*” or “*Bonds*” means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

“*Bond Counsel’s Opinion*” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

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

“*Bond Reserve Fund*” means the Bond Reserve Fund established pursuant to Section 5.1.

“*Bond Reserve Fund Requirement*” means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

“*Code*” means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

- (1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;
- (2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

“Program Security” means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

“Projected Cash Flow Statement” means a Certificate delivered pursuant to the provisions of Section 7.11.

“Rating Agency” means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody’s and S&P.

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

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

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

“Refunding Bond” means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

“Resolution” means this Resolution and any amendments or supplements made in accordance with its terms.

“Revenue Fund” means the Revenue Fund established pursuant to Section 5.1.

“Revenues” means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

“S&P” means Standard & Poor’s Rating Services, a Standard & Poor’s Financial Services LLC business, and any successor.

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

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

“State” means the State of Tennessee.

“Supplemental Resolution” means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

“THDA” means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

“Trustee” means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI
REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII

PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

(1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or

(2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or

(3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal or of Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$823,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

Amount

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/ Converted</u>	<u>Outstanding as of September 30, 2017 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A	December 23, 2009	\$ 100,000,000	\$ --	\$ 10,825,000	3.96%
2010-A/ 2009-B, Subseries B-1	June 17, 2010	74,710,000	85,290,000	15,560,000	3.85
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	46,685,000	3.15
2011-A/ 2009-B, Subseries B-3	April 14, 2011	40,000,000	60,000,000	13,985,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	52,800,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,850,000	34,710,000	49,630,000	3.01
Issue 2015-A	May 28, 2015	<u>163,850,000</u>	<u>--</u>	<u>114,060,000</u>	2.78
TOTAL		<u>\$ 523,850,000</u>	<u>\$ 300,000,000</u>	<u>\$ 303,545,000</u>	

(1) Bond yield.

As of September 30, 2017 (unaudited), 3,293 mortgage loans in the approximate aggregate principal amount of \$280,757,602 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$827,690,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of September 30, 2017 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2008-1	May 29, 2008	\$ 60,000,000	\$ 12,015,000	4.93
2009-1	June 11, 2009	50,000,000	15,535,000	4.39
2009-2	September 30, 2009	75,000,000	20,285,000	4.06
2010-1	October 13, 2010	120,700,000	40,495,000	3.57
2011-1	December 1, 2011	141,255,000	63,255,000	3.80
2012-1	July 19, 2012	133,110,000	67,995,000	3.26
2012-2	November 15, 2012	97,625,000	52,805,000	2.92
TOTAL		<u>\$ 827,690,000</u>	<u>\$ 272,385,000</u>	

(1) Bond yield.

As of September 30, 2017 (unaudited), 5,758 mortgage loans in the approximate aggregate principal amount of \$307,872,392 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets relating to bond proceeds, including mortgage loans, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution. Certain assets and investments not related to bond proceeds remain in the General Fund of the 1974 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. THDA established eligibility requirements for the mortgage credit certificate program and loans assisted with a mortgage credit certificate may not be funded with proceeds of qualified mortgage bonds such as the Issue 2017-4 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets, other than its mortgage assets (the “non-mortgage assets”). These non-mortgage assets are invested only in investments authorized by the Act, THDA’s investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA’s investment of THDA non-mortgage assets to the Executive Director of THDA.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bonds certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds certificates will be printed and delivered.

RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES

General

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2017-4 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

THDA's current income limits range from \$57,480 to \$96,180 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

U.S. Bank currently services approximately 90% of THDA's mortgage loan portfolio. THDA began self-servicing the mortgage loan portfolio previously serviced by Pinnacle Bank through a division of THDA called Volunteer Mortgage Loan Servicing ("VMLS"). VMLS began servicing the former Pinnacle Bank portion of the THDA mortgage loan portfolio as of November 1, 2016. VMLS began servicing new production loans from its largest Originating Agent on June 1, 2017. As of September 30, 2017, VMLS is servicing less than 8.0% of all THDA mortgage loans.

THDA is providing notice to all Originating Agents about delivering new THDA loans to VMLS for servicing in accordance with a schedule that THDA anticipates will result in all new THDA loans being serviced by THDA on or about April 1, 2018. THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

THDA requires regular reports from Servicers updating the total number of Program Loans serviced and providing certain information for each Program Loan including, without limitation, delinquency and foreclosure data. THDA's agreements with Servicers (the "Servicing Agreements") provide for the collection and remittance of Program Loan payments to THDA or a designated depository. The Servicers' records relating to serviced Program Loans are subject to examination by THDA's Single Family and Internal Audit Divisions.

THDA provides each Servicer with a Guide for Servicers which sets forth complete requirements and procedures for servicing Program Loans. THDA may terminate any Servicing Agreement when there is inadequate performance by the Servicer. THDA may also require that a Servicer purchase any Program Loan from THDA at any time THDA suffers or is threatened with a material loss by reason of a Servicer's failure to perform its obligations with respect to the Program Loans under the Servicing Agreement. For information about Servicing Agreements and substantive requirements relating to servicing Program Loans, see Appendix C.

December 19, 2017

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$11,460,000 Issue 2017-4A (Non-AMT)
\$88,440,000 Issue 2017-4B (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$11,460,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2017-4A (Non-AMT) (the "Issue 2017-4A Bonds"), and \$88,440,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2017-4B (Non-AMT) (the "Issue 2017-4B Bonds" and, together with the Issue 2017-4A Bonds, the "Issue 2017-4 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2017-4 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on September 26, 2017, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on November 8, 2017 (together, the "Supplemental Resolution," and, together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2017-4 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2017-4 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2017-4 Bonds are being issued to refund certain outstanding obligations of THDA and to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2017-4 Bonds in order that interest on the Issue 2017-4 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2017-4 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.
2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.

3. The Issue 2017-4 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2017-4 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2017-4 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.

6. The Issue 2017-4 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.

7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2017-4 Bonds is excluded from gross income of the owners thereof for federal income tax purposes, (ii) interest on the Issue 2017-4 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations, (iii) interest on the Issue 2017-4A Bonds will be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code, and (iv) interest on the Issue 2017-4B Bonds will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code.

8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2017-4 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2017-4 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2017-4 Bonds may have to take interest on such Issue 2017-4 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2017-4 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2017-4 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2017-4 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES**Delinquencies and Foreclosures as of June 30, 2017*

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.43%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	152	\$ 14,659,035	1.43%	0.91% ⁽⁴⁾
VA Guaranteed	1	111,713	0.38	0.72
Privately Insured	11	888,734	1.11	0.65
USDA/RD Guaranteed.....	18	1,232,049	2.34	⁽⁵⁾
Uninsured.....	5	295,682	1.17	⁽⁵⁾
TOTAL	<u>187</u>	<u>\$ 17,187,214⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.00%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	515	\$ 44,653,653	4.84%	1.82% ⁽⁴⁾
VA Guaranteed	19	1,319,090	7.31	1.15
Privately Insured	67	4,729,147	6.76	1.09
USDA/RD Guaranteed.....	39	2,900,018	5.07	⁽⁵⁾
Uninsured.....	14	783,463	3.29	⁽⁵⁾
TOTAL	<u>654</u>	<u>\$ 54,385,371⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bond issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding loans financed pursuant to the 1974 General Resolution that were transferred to the General Resolution as of June 30, 2014.

The overall rate of Program Loans in foreclosure was 0.58%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of June 30, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2017, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	65	\$ 6,790,161	0.61%	0.58% ⁽⁴⁾
VA Guaranteed	2	273,802	0.77	0.84
Privately Insured	5	507,538	0.50	0.40
USDA/RD Guaranteed.....	4	287,204	0.52	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	76	\$ 7,858,705 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of March 31, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.09%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	114	\$ 10,187,275	1.14%	0.98% ⁽⁴⁾
VA Guaranteed	1	17,443	0.40	0.59
Privately Insured	7	613,914	0.89	0.63
USDA/RD Guaranteed.....	8	587,777	1.09	(5)
Uninsured.....	2	126,407	0.51	(5)
TOTAL	132	\$ 11,532,816 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.04%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	492	\$ 42,478,597	4.93%	1.90% ⁽⁴⁾
VA Guaranteed	19	1,183,231	7.54	1.21
Privately Insured	49	3,494,152	6.23	1.22
USDA/RD Guaranteed.....	38	2,671,286	5.18	(5)
Uninsured.....	14	798,014	3.54	(5)
TOTAL	<u>612</u>	<u>\$ 50,625,281⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.74%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2017, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	77	\$ 7,804,398	0.77%	0.59% ⁽⁴⁾
VA Guaranteed	3	376,556	1.19	0.90
Privately Insured	5	483,014	0.64	0.46
USDA/RD Guaranteed.....	5	376,443	0.68	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>90</u>	<u>\$ 9,040,411⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of December 31, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.92%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	182	\$16,994,592	1.92%	1.43% ⁽⁴⁾
VA Guaranteed	8	588,835	3.19	0.81
Privately Insured	14	1,080,351	1.72	0.50
USDA/RD Guaranteed.....	17	1,222,844	2.35	(5)
Uninsured.....	<u>3</u>	<u>146,440</u>	0.75	(5)
TOTAL	<u>224</u>	<u>20,033,063</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.25%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	489	\$41,481,830	5.16%	2.31% ⁽⁴⁾
VA Guaranteed	14	1,069,711	5.58	1.49
Privately Insured	46	3,377,391	5.67	0.94
USDA/RD Guaranteed.....	48	3,680,889	6.65	(5)
Uninsured.....	<u>19</u>	<u>1,152,305</u>	4.75	(5)
TOTAL	<u>606</u>	<u>\$50,762,126</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.87%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of December 31, 2016 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2016, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	82	\$ 8,206,900	0.87%	0.80% ⁽⁴⁾
VA Guaranteed	5	575,617	1.99	0.94
Privately Insured	8	764,257	0.99	0.36
USDA/RD Guaranteed.....	4	306,630	0.55	(5)
Uninsured.....	<u>2</u>	<u>150,346</u>	0.50	(5)
TOTAL	<u>101</u>	<u>\$10,003,751</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of September 30, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.09%, based on a total of 10,351 Program Loans as of September 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	190	\$17,536,058	2.13%	1.33% ⁽⁴⁾
VA Guaranteed	5	410,693	2.16	0.80
Privately Insured	3	143,181	1.21	0.41
USDA/RD Guaranteed.....	13	1,130,721	2.11	(5)
Uninsured.....	<u>5</u>	<u>350,498</u>	1.52	(5)
TOTAL	<u>216</u>	<u>\$19,571,150</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.66%, based on a total of 10,351 Program Loans as of September 30, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	411	\$33,156,480	4.60%	2.21% ⁽⁴⁾
VA Guaranteed	17	1,298,092	7.36	1.39
Privately Insured	11	757,325	4.45	0.66
USDA/RD Guaranteed.....	28	2,065,701	4.55	(5)
Uninsured.....	<u>15</u>	<u>825,855</u>	4.57	(5)
TOTAL	<u>482</u>	<u>\$38,103,452</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.56%, based on a total of 10,351 Program Loans as of September 30, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2016 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2016, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2016

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	50	\$4,620,684	0.56%	0.73% ⁽⁴⁾
VA Guaranteed	1	108,481	0.43	0.85
Privately Insured	2	102,416	0.81	0.30
USDA/RD Guaranteed.....	5	354,826	0.81	(5)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(5)
TOTAL	<u>58</u>	<u>5,186,407</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these



Tennessee Housing
Development Agency

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2018-1 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that interest on the Issue 2018-1 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"). In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2018-1 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2018-1 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds

\$99,900,000 Issue 2018-1 (Non-AMT)

Dated: Date of Delivery

Due: As shown on inside front cover

The Issue 2018-1 Bonds (the "Issue 2018-1 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on July 1, 2018, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about March 29, 2018.

RAYMOND JAMES

CITIGROUP

RBC CAPITAL MARKETS

J.P. MORGAN

WELLS FARGO SECURITIES

WILEY BROS.—AINTREE CAPITAL, LLC

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$99,900,000 Issue 2018-1 (Non-AMT)

\$29,125,000 Serial Bonds						
Year	Principal Amount Due January 1	Interest Rate	CUSIP Number⁽¹⁾	Principal Amount Due July 1	Interest Rate	CUSIP Number⁽¹⁾
2019	\$ 760,000	1.400 %	880461SG4	\$ 970,000	1.500 %	880461SH2
2020	980,000	1.625	880461SJ8	990,000	1.750	880461SK5
2021	1,000,000	1.850	880461SL3	1,010,000	2.000	880461SM1
2022	1,020,000	2.050	880461SN9	1,035,000	2.150	880461SP4
2023	1,045,000	2.250	880461SQ2	1,060,000	2.375	880461SR0
2024	1,075,000	2.450	880461SS8	1,085,000	2.550	880461ST6
2025	1,100,000	2.600	880461SU3	1,115,000	2.650	880461SV1
2026	1,130,000	2.800	880461SW9	1,150,000	2.800	880461SX7
2027	1,170,000	2.900	880461SY5	1,185,000	2.950	880461SZ2
2028	1,205,000	3.000	880461TA6	1,225,000	3.050	880461TB4
2029	1,245,000	3.150	880461TC2	1,270,000	3.250	880461TD0
2030	1,290,000	3.300	880461TE8	1,315,000	3.350	880461TF5
2031	1,335,000	3.450	880461TL2	1,360,000	3.500	880461TM0

\$70,775,000 Term Bonds			
Maturity Date	Principal Amount Due	Interest Rate	CUSIP Number⁽¹⁾
July 1, 2033	\$ 5,695,000	3.60 %	880461TG3
July 1, 2038	16,360,000	3.85	880461TH1
July 1, 2042	13,320,000	3.90	880461TJ7
January 1, 2043 (PAC)	35,400,000	4.00	880461TK4

PRICE OF ISSUE 2018-1 BONDS DUE JANUARY 1, 2043 (PAC): 106.390%

PRICE OF ALL REMAINING ISSUE 2018-1 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds
\$99,900,000 Issue 2018-1 (Non-AMT)

INTRODUCTION

This Official Statement (the “Official Statement”) provides certain information in connection with the issuance by the Tennessee Housing Development Agency (“THDA”) of its Residential Finance Program Bonds, Issue 2018-1 in the aggregate principal amount of \$99,900,000 (the “Issue 2018-1 Bonds” or the “Offered Bonds”).

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the “Act”). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the “General Resolution” or the “2013 General Resolution”) and by a Resolution adopted by THDA on January 23, 2018, as amended and supplemented by the Bond Finance Committee of THDA (the “Bond Finance Committee”) on February 27, 2018 (the “Issue 2018-1 Supplemental Resolution”). The General Resolution and the Issue 2018-1 Supplemental Resolution are herein collectively referred to as the “Resolution.”

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2018-1 Bonds on January 22, 2018.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of December 31, 2017 (unaudited), Bonds in the aggregate principal amount of \$1,422,660,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$286,420,000 were outstanding under THDA's Housing Finance Program Resolution (the “2009 General Resolution”), and bonds in the aggregate principal amount of \$257,955,000 were outstanding under THDA's Homeownership Program Resolution (the “1985 General Resolution”). No bonds are outstanding under THDA's Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”). For more information see “Other Financings—Housing Bond Resolution (Mortgage Finance Program)” in Appendix E.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption “SECURITY AND SOURCES OF PAYMENT OF BONDS”. All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the “Bonds”. The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the “Public Pledge Act”). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee's codification of Article 9 of the Uniform Commercial Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects that the proceeds of the Issue 2018-1 Bonds will be used to: (i) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (ii) pay capitalized interest, if any; (iii) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (iv) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix G. In addition, mortgage loans previously allocated to certain bonds no longer outstanding under the 1985 General Resolution in an expected aggregate outstanding amount of approximately \$9,125,000 will be transferred to the General Resolution (the "Allocated Program Loans") for cash flow purposes. See "DESCRIPTION OF THE ALLOCATED PROGRAM LOANS" for more information about the Allocated Program Loans.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution, including the Allocated Program Loans and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" shall include the Allocated Program Loans as well as new Program Loans (including participations therein) financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2018-1 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA does not intend to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance. While the Issue 2018-1 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of December 31, 2017 (unaudited), 14,150 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$1,383,285,748. Based on the outstanding principal balance of Program Loans as of December 31, 2017 (unaudited), approximately 86.57% were FHA insured, approximately 1.83% were VA guaranteed, approximately 5.52% were insured by private mortgage insurance companies, approximately 4.05% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.03% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See

“RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data” and Appendix B under the heading “Private Mortgage Insurance Programs”.

U.S. Bank National Association (the “Trustee”) is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2018-1 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2018-1 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D “2013 GENERAL RESOLUTION”. Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, (“DTC”), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F “BOOK-ENTRY-ONLY SYSTEM” for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2018-1 Bonds and is payable on July 1, 2018, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2018-1 Bonds maturing on July 1, 2033, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2032, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2018-1 Term Bonds Due July 1, 2033

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2032	\$ 1,385,000	\$ 1,410,000
2033	1,435,000	1,465,000 (maturity)

The Issue 2018-1 Bonds maturing on July 1, 2038, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2034, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2018-1 Term Bonds Due July 1, 2038

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2034	\$ 1,490,000	\$ 1,520,000
2035	1,550,000	1,585,000
2036	1,615,000	1,650,000
2037	1,685,000	1,720,000
2038	1,755,000	1,790,000 (maturity)

*Subject to Change

The Issue 2018-1 Bonds maturing on July 1, 2042, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2039, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2018-1
Term Bonds Due July 1, 2042**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2039	\$ 1,660,000	\$ 1,485,000
2040	1,515,000	1,545,000
2041	1,730,000	1,760,000
2042	1,795,000	1,830,000 (maturity)

The Issue 2018-1 Bonds maturing on January 1, 2043 (the "PAC Bonds"), are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2019, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2018-1
PAC Term Bonds Due January 1, 2043**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2019	\$ 455,000	\$ 465,000
2020	470,000	480,000
2021	490,000	500,000
2022	510,000	515,000
2023	525,000	535,000
2024	545,000	555,000
2025	570,000	580,000
2026	590,000	600,000
2027	610,000	625,000
2028	635,000	645,000
2029	660,000	670,000
2030	685,000	695,000
2031	710,000	725,000
2032	735,000	750,000
2033	765,000	780,000
2034	795,000	810,000
2035	825,000	840,000
2036	855,000	870,000
2037	885,000	905,000
2038	920,000	940,000
2039	955,000	925,000
2040	940,000	960,000
2041	980,000	950,000
2042	970,000	990,000
2043	1,010,000 (maturity)	

Optional Redemption. The Issue 2018-1 Bonds maturing on and after January 1, 2028, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after July 1, 2027, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2018-1 Principal Payments (as defined below). Any Excess 2018-1 Principal Payments so deposited in the

Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing July 1, 2018; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2018-1 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds (including the Allocated Program Loans) are equal to or less than 400% PSA (as defined below under "ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds"), as determined by THDA, then available Excess 2018-1 Principal Payments shall first be applied to redeem PAC Bonds up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds and, subject to the application of the 10-year rule as described below under the heading "*–Mandatory Redemption – 10 Year Rule,*" the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds (including the Allocated Program Loans) are in excess of 400% PSA, as determined by THDA, then available Excess 2018-1 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds shall first be applied to redeem PAC Bonds and, subject to the application of the 10-year rule as described below under the heading "*–Mandatory Redemption – 10 Year Rule,*" the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an "Excess Principal PAC Bond Redemption"); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2018-1 Principal Payments which is in excess of 400% PSA, and (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds' proportionate amount of all Issue 2018-1 Bonds then Outstanding.

"Excess 2018-1 Principal Payments" means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds (including the Allocated Program Loans) to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

"Planned Amortization Amount" means the dollar amount applicable to the PAC Bonds for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the PAC Bonds assumed to be redeemed from Excess 2018-1 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds (including the Allocated Program Loans). See "ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds" for a description of PSA prepayment rates.

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The Planned Amortization Amounts for the PAC Bonds (which assume the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination, the allocation of the Allocated Program Loans to the Offered Bonds in an aggregate principal amount of approximately \$9,125,000 with an approximate weighted average maturity of 244 months, and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds (including the Allocated Program Loans) at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedules

<u>Date</u>	<u>PAC Bonds Planned Amortization Amount</u>
July 1, 2018	\$ 195,000
January 1, 2019	750,000
July 1, 2019	1,775,000
January 1, 2020	3,390,000
July 1, 2020	5,535,000
January 1, 2021	8,140,000
July 1, 2021	10,895,000
January 1, 2022	13,610,000
July 1, 2022	16,185,000
January 1, 2023	18,635,000
July 1, 2023	20,955,000
January 1, 2024	23,150,000
July 1, 2024	25,230,000
January 1, 2025	27,190,000
July 1, 2025	29,035,000
January 1, 2026	30,765,000
July 1, 2026	32,385,000
January 1, 2027	33,895,000
July 1, 2027	35,300,000
January 1, 2028	35,400,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the PAC Bonds are redeemed from amounts on deposit in the Issue 2018-1 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see "ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds."

Special Optional Redemption of the Offered Bonds, including Cross Calls The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading "DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds"; (ii) except as otherwise described under the headings "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds", and "– Mandatory Redemption – 10 Year Rule", repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, "Code"), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds", and (b) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bonds to exceed the Planned Amortization Amount shown above in the PAC Bonds Amortization Schedule. The Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D "2013 GENERAL RESOLUTION"), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph. See "ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments" and "ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices".

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof financed with proceeds of the Offered Bonds shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. This requirement does not apply to the Allocated Program Loans. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds," the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the related Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedule only if there are no other Offered Bonds outstanding.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans (or portions thereof) financed with proceeds of the Offered Bonds in accordance with the following approximate 10 year rule percentages to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Commencement Date</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
March 29, 2018	0.00%
March 29, 2028	100.00%

THDA will redeem the Offered Bonds in accordance with this schedule to the extent required to comply with the Code. THDA reserves the right to modify this schedule at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory redemption on January 1, 2019, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2018-1 Bonds Subaccount of the Loan Fund on December 1, 2018, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2018-1 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on September 1, 2021, to the extent any amounts remain on deposit in the Issue 2018-1 Bonds Subaccount of the Loan Fund on August 1, 2021.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding.

Selection By Lot

If less than all of the Issue 2018-1 Bonds of like maturity are to be redeemed, the particular Issue 2018-1 Bonds of such maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2018-1 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 99,900,000.00
Premium on PAC Bonds	2,262,060.00
Allocated Program Loans	9,125,000.00
TOTAL SOURCES	<u>\$ 111,287,060.00</u>

USES

Deposit to Loan Fund ⁽¹⁾	\$ 109,025,000.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,000,000.00
Deposit to Bond Reserve Fund	429,395.43
Costs of Issuance	215,500.00
Underwriters' Fee	617,164.57
TOTAL SOURCES	<u>\$ 111,287,060.00</u>

(1) Includes \$99,900,000 in proceeds from Issue 2018-1 plus approximately \$9,125,000 in Allocated Program Loans.

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow

Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumptions that (i) Allocated Program Loans in the aggregate principal amount of approximately \$9,125,000, with a weighted average maturity of approximately 244 months and a weighted average interest rate of approximately 6.12%, will be allocated to the Offered Bonds and (ii) THDA originates approximately \$99,900,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 4.32%. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2018-1 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA, including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" for descriptions of the various Program Loan products and Appendix G "RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES" for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2018-1 Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 4.32% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2018-1 Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2018-1 Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on January 5, 2018. As of February 10, 2018, THDA has committed a total principal amount of approximately \$28,400,000 of Program Loans, all of which are Great Choice Program Loans and Homeownership for the Brave Program Loans, that will be allocated to the Offered Bonds. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans". Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

In recent years a number of financial institutions and related entities have announced large losses as a result of their mortgage activities and the increasing number of defaults and foreclosures on such mortgages. The United States Congress has passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and may pass additional legislation impacting the origination and servicing of mortgage loans. Likewise, the Tennessee General Assembly may enact legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA's single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA's activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA's single-family loans could adversely affect the THDA's ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans (including Allocated Program Loans) will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” “- Special Optional Redemption of the Offered Bonds, including Cross Calls” and “- Mandatory Redemption – 10-Year Rule”.

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds.”

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA's general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA's current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA's determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D “2013 GENERAL RESOLUTION” for a description of Program Expenses. THDA expects to use funds on deposit in the Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters' fees, initial Trustee's fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will

not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see “THDA – THDA Funds”. THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum; and (iii) funds on deposit in the Issue 2018-1 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term “weighted average life” refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association (“PSA”)) prepayment standard or model (commonly referred to as the “PSA Prepayment Model”).

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, “0% PSA” assumes no prepayments of principal on the Program Loans. “25% PSA” assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. “50% PSA” assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. “75% PSA” assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. “100% PSA” assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. “200% PSA” assumes the principal of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. “300% PSA” assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “400% PSA” assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “500% PSA” assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the

rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors' housing needs, job transfers, unemployment and mortgagors' net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under "Changes in Federal or State Law" above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading "DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds", and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2018-1 Bond Subaccount of the Loan Fund is applied to finance Program Loans, (ii) approximately \$9,125,000 of Allocated Program Loans with an approximate weighted average maturity of 244 months and an approximate weighted average interest rate of 6.12% will be allocated to the Offered Bonds, (iii) Excess 2018-1 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iv) the PAC Bonds will be redeemed only in the Planned Amortization Amounts as described under the heading "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds" and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate. For certain information regarding Allocated Program Loans see "DESCRIPTION OF ALLOCATED PROGRAM LOANS" herein.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>PAC Bond Average Life (in years)</u>
0%	14.4
25	13.7
50	9.9
75	6.4
100	5.0
200	5.0
300	5.0
400	5.0
500	4.0

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RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

THDA has issued \$1,749,005,000 total original principal amount of bonds under the General Resolution, of which \$1,422,660,000 (unaudited) were outstanding as of December 31, 2017, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of December 31, 2017 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$ 108,135,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	72,715,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	98,645,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	113,830,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	127,085,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	150,205,000	3.25
Issue 2016-1	May 18, 2016	125,000,000	113,950,000	2.68
Issue 2016-2	October 18, 2016	125,000,000	117,315,000	2.68
Issue 2016-3	November 17, 2016	62,000,000	49,165,000	2.97
Issue 2017-1	March 30, 2017	100,000,000	96,815,000	3.15
Issue 2017-2	June 27, 2017	175,000,000	175,000,000	2.94
Issue 2017-3	September 28, 2017	99,900,000	99,900,000	3.03
Issue 2017-4	December 19, 2017	99,900,000	99,900,000	2.90
TOTAL		<u>\$ 1,749,005,000</u>	<u>\$ 1,422,660,000</u>	

(1) Bond yield.

Origination Experience

THDA's experience from May 30, 2013, to December 31, 2017 (unaudited), regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

<u>Issue of Bonds</u>	<u>Lendable Proceeds⁽²⁾</u>	<u>Program Loans Financed⁽³⁾ as of December 31, 2017</u>		<u>Weighted Average Interest Rate⁽⁴⁾</u>
		<u>Amount</u>	<u>%</u>	
Issue 2013-1	\$ 135,268,395	\$ 135,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	92,340,000	92,340,000	100.00	3.98
Issue 2016-2	91,685,000	91,685,000	100.00	3.87
Issue 2017-1	102,200,000	102,200,000	100.00	4.15
Issue 2017-2	128,090,000	128,090,000	100.00	4.61
Issue 2017-3	90,500,000	90,500,000	100.00	4.62
Issue 2017-4	75,660,000	38,149,703	50.42	4.53
TOTAL	<u>\$ 1,291,543,875</u>	<u>\$ 1,254,033,419</u>		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included. All lendable proceeds with respect to the Issue 2017-4 Bonds were committed as of January 5, 2018.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on January 5, 2018, and as of February 10, 2018, THDA has committed a total principal amount of approximately \$28,400,000 of Program Loans that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. The THDA Household Income Limits range from \$57,480 to \$96,180 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2018-1 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance. While the Issue 2018-1 Supplemental Resolution provides that Program Loans, or participations therein, to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date, including the Allocated Program Loans, were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. Allocated Program Loans financed prior to September 30, 2013, are Great Rate, Great Advantage, Great Start or Homeownership for the Brave Program Loans. On and after October 1, 2013, the THDA primary loan program has included Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. Since October 1, 2013, THDA has provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below. As of March 1, 2017, THDA began providing additional downpayment and closing cost assistance through its Hardest Hit Fund Down Payment Assistance program as described below.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 4.25%; however, beginning February 17, 2018, the interest rate for Great Choice Program Loans will be 4.50%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans. From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans in a principal amount equal to 4% of the purchase price of the property purchased. From October 1, 2014, to September 30, 2016, Great Choice Plus Loans were 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, each Great Choice Plus loan will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

Since October 3, 2016, Great Choice Plus Loans are thirty year 0% interest rate second lien loans in a principal amount up to 5% of the purchase price of the property purchased. No monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan, provided, however, that the full original principal amount will be forgiven at the end of the thirty year term.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA. THDA does not expect that Great Choice Plus loans will be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

Hardest Hit Fund Down Payment Assistance

In March 2017, THDA began providing \$15,000 in downpayment assistance from the fifth round of federal Hardest Hit Fund funding ("HHF-DPA") to eligible borrowers who qualify for THDA Great Choice loans and who are purchasing existing homes in one of fifty-five zip codes in thirty Tennessee counties. HHF-DPA is secured by a second deed of trust for a ten year term. HHF-DPA does not bear interest, and there are no monthly payments, but it is due on sale. HHF-DPA is forgiven at 20% per year in years six through ten. A THDA approved Homebuyer Education course is also required.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans are serviced by the Federation of Appalachian Housing Enterprises, Inc., as of January 1, 2015. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. As of December 1, 2016, the maximum loan amount

was increased to \$123,750 for Maury, Williamson, Davidson, Rutherford, Wilson and Sumner Counties. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable.

As of December 31, 2017 (unaudited), 114 New Start Program Loans, with an aggregate principal balance of approximately \$5,442,645, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction. Eligible borrowers will also be eligible for Great Choice Plus loans.

As of December 31, 2017 (unaudited), 222 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$24,649,171, were outstanding under the General Resolution. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became transferred program loans allocable to the Issue 2013-1 Bonds under the General Resolution.

As of December 31, 2017 (unaudited), 168 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$9,398,959, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers prior to October 1, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds. THDA also provided downpayment and closing cost assistance in the form of a grant in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made.

As of December 31, 2017 (unaudited), 2,769 Great Rate, 135 Great Advantage, and 1,728 Great Start Program Loans, with an aggregate principal balance of approximately \$376,376,975, were outstanding under the General Resolution.

Although Allocated Program Loans include Great Rate or Great Start Program Loans, THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of December 31, 2017 (unaudited), 14,150 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$1,383,285,748 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 309.41 months and an approximate weighted average interest rate of 4.52%.

Tables under this heading, "Residential Finance Program Portfolio Data", do not include data about Allocated Program Loans. For more information about Allocated Program Loans see "DESCRIPTION OF THE ALLOCATED PROGRAM LOANS".

Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of December 31, 2017 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured	11,720	\$ 1,197,490,855	82.83%	86.57%
VA Guaranteed	272	25,357,503	1.92	1.83
Privately Insured	928	76,373,710	6.56	5.52
USDA/RD Guaranteed	782	56,036,774	5.53	4.05
Uninsured ⁽²⁾	448	28,026,906	3.17	2.03
TOTAL	14,150	\$ 1,383,285,748⁽⁴⁾	100.00%⁽⁴⁾	100.00%⁽⁴⁾

- (1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.
- (2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.
- (3) Rounded figures.
- (4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution, either upon their direct transfer to the General Resolution or upon the refunding of other THDA obligations, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of December 31 2017 (unaudited), 928⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$76,373,710 were outstanding under the General Resolution. As of December 31, 2017 (unaudited), THDA had the following information regarding the private mortgage insurers for 850 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance⁽³⁾</u>	<u>Percent of Total Number of Program Loans⁽³⁾</u>	<u>Percent of Total Outstanding Balance of Program Loans⁽³⁾</u>
Commonwealth/CMAC	3	\$ 76,908	0.02%	0.01%
Genworth Mortgage Insurance Corp. (GE)	357	30,218,180	2.52	2.18
MGIC	298	25,086,536	2.11	1.81
PMI Mortgage Insurance Co. ⁽²⁾	2	143,083	0.01	0.01
Radian Guaranty Inc.	4	240,578	0.03	0.02
Republic Mortgage Insurance Corporation	50	3,977,836	0.35	0.29
Triad Guaranty Insurance Corporation ⁽²⁾	7	431,496	0.05	0.03
United Guaranty Residential Insurance Co.	129	10,357,211	0.91	0.75
TOTAL	850	\$ 70,531,829⁽⁴⁾	6.01%⁽⁴⁾	5.10%⁽⁴⁾

(1) The private mortgage insurer is not identified with respect to 78 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA began compiling data with respect to individual private mortgage insurance providers.

(2) Certain private mortgage insurance companies are under the oversight of their respective state insurance regulators and may pay claims at rates less than \$1.00 per \$1.00 of coverage.

(3) Rounded figures.

(4) Rounded total.

Program Loan Interest Rates

The following table summarizes, as of December 31, 2017 (unaudited), the interest rates of the outstanding Program Loans:

<u>Mortgage Rates (%)</u>	<u>Number of Program Loans⁽¹⁾</u>	<u>Outstanding Balance⁽²⁾</u>	<u>Percent of Total Number of Program Loans⁽²⁾</u>	<u>Percent of Total Outstanding Balance⁽²⁾</u>
0.00-0.99	168	\$ 7,563,372	1.19%	0.55%
1.00-2.99	2	160,697	0.01	0.01
3.00-3.99	3,626	424,450,886	25.63	30.68
4.00-4.49	3,118	363,740,429	22.04	26.30
4.50-4.99	2,767	314,379,333	19.55	22.73
5.00-5.49	1,210	95,388,638	8.55	6.90
5.50-5.99	1,585	92,407,359	11.20	6.68
6.00-6.49	542	41,849,438	3.83	3.03
6.50-6.99	625	30,384,203	4.42	2.20
7.00-7.49	229	7,386,758	1.62	0.53
7.50-7.99	202	3,918,669	1.43	0.28
8.00-8.99	72	1,610,490	0.51	0.12
9.00-9.49	3	38,640	0.02	0.00
9.50-12.00	1	6,834	0.01	0.00
TOTAL	14,150	\$1,383,285,748⁽³⁾	100.00%⁽³⁾	100.00%⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have

passed with no payment received by the last business day of the month in which the second payment was due are considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

The financial institutions who service Program Loans manage delinquencies by working with borrowers in an attempt to avoid defaults and by sending payment requests to borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

Delinquencies and Foreclosures as of December 31, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.08%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	252	\$ 24,174,120	2.15%	1.38% ⁽⁴⁾
VA Guaranteed	4	245,240	1.47	0.80
Privately Insured	14	1,165,763	1.51	0.71 ⁽⁵⁾
USDA/RD Guaranteed.....	21	1,298,996	2.69	⁽⁶⁾
Uninsured.....	3	147,257	0.67	⁽⁶⁾
TOTAL	294	\$ 27,031,376 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.44%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	628	\$ 56,810,693	5.36%	1.92% ⁽⁴⁾
VA Guaranteed	18	1,132,198	6.62	1.31
Privately Insured	67	4,094,874	7.22	1.16 ⁽⁵⁾
USDA/RD Guaranteed.....	43	2,890,156	5.50	(6)
Uninsured.....	14	820,178	3.13	(6)
TOTAL	<u>770</u>	<u>\$ 65,748,099⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.33%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of December 31, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2017, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	40	\$ 3,982,561	0.34%	0.43% ⁽⁴⁾
VA Guaranteed	1	117,136	0.37	0.80
Privately Insured	4	463,572	0.43	0.41 ⁽⁵⁾
USDA/RD Guaranteed.....	2	156,928	0.26	(6)
Uninsured.....	0	0	0.00	(6)
TOTAL	<u>47</u>	<u>\$ 4,720,196⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

DESCRIPTION OF THE ALLOCATED PROGRAM LOANS

General

As of December 31, 2017, the Allocated Program Loans have an approximate weighted average maturity of 247 months and a weighted average interest rate of 6.12% per annum. Average prepayment rate information for the Allocated Program Loans is discussed in “DESCRIPTION OF THE ALLOCATED PROGRAM LOANS – Prepayment Experience of Allocated Program Loans” below. The Allocated Program Loans initially were financed with proceeds of THDA’s Homeownership Program Bonds, Issue 2008-2, issued pursuant to the 1985 General Resolution (the “2008-2 Bonds”) which 2008-2 Bonds are no longer outstanding. It is anticipated that the characteristics of the pool of Allocated Program Loans will be substantially similar to the loans described below (such information below is as of December 31, 2017 (unaudited); the Allocated Program Loans will not be allocable to the Offered Bonds until March 29, 2018, and Allocated Program Loan characteristics may change from December 31, 2017, to March 29, 2018).

Allocated Program Loans by Loan Type

<u>Type of Mortgage</u>	<u>Number</u>	<u>Principal Amount⁽³⁾</u>	<u>% of Allocated Principal Amount</u>
FHA Insured	74	\$ 6,014,031	64.68%
VA Guaranteed	1	113,490	1.22
Privately Insured ⁽¹⁾	6	518,615	5.58
USDA/RD Guaranteed	30	2,301,608	24.75
Uninsured ⁽²⁾	4	350,899	3.77
TOTAL	<u>115</u>	<u>\$ 9,298,644⁽⁴⁾</u>	<u>100.00%</u>

(1) This includes Program Loans for which private mortgage insurance was in place at the time of the closing of the respective Program Loan.

(2) Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, and Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Allocated Program Loans

Each private mortgage insurer insuring conventional, privately insured THDA Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least ‘AA’ by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured THDA Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least ‘AA’ by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of December 31, 2017 (unaudited), 6⁽¹⁾ privately insured Allocated Program Loans having an aggregate principal balance of approximately \$518,615 were outstanding. As of December 31, 2017 (unaudited), THDA had the following information regarding the private mortgage insurers for 5 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Allocated Program Loans</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>Percent of Total Number of Allocated Program Loans⁽²⁾</u>	<u>Percent of Total Outstanding Balance of Allocated Program Loans⁽²⁾</u>
Genworth Mortgage Insurance Corp. (GE)	4	\$ 297,803	3.48%	3.20%
United Guaranty Residential Insurance Co.	1	85,277	0.87	0.92
TOTAL	5	\$ 383,080 ⁽³⁾	4.35% ⁽³⁾	4.12% ⁽³⁾

(1) The private mortgage insurer is not identified with respect to one of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA began compiling data with respect to individual private mortgage insurance providers.

(2) Rounded figures.

(3) Rounded total.

Prepayment Experience of Allocated Program Loans

The Allocated Program Loans are composed of mortgage loans originally allocable to the 2008-2 Bonds. The table set forth below lists the actual average prepayment rate (principal only) experience as a percentage of the PSA Prepayment Model of the mortgage loans allocable to the 2008-2 Bonds for the 3 month, 6 month and 12 month periods ended on December 31, 2017, based on principal prepayment data available to THDA.

<u>Issue</u>	<u>3 Months</u>	<u>6 Months</u>	<u>12 Months</u>	<u>Since Inception</u>	<u>Weighted Average Interest Rate</u>
2008-2	276%	235%	297%	308%	6.12%

Delinquency Information for the Allocated Program Loans

The overall delinquency rate for the Allocated Program Loans that were sixty (60) to eighty-nine (89) days past due was 0.87%, based on a total of 115 Allocated Program Loans as of December 31, 2017 (unaudited).

Delinquency rates by loan type for the Allocated Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending September 30, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	0	\$ 0	0.00%	1.38% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.80
Privately Insured	1	66,622	16.67	0.71 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	1	\$ 66,622 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate for the Allocated Program Loans that were ninety (90) days past due was 10.43%, based on a total of 115 Allocated Program Loans as of December 31, 2017 (unaudited).

Delinquency rates by loan type for the Allocated Program Loans that were ninety (90) days past due as of December 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending September 30, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	8	\$ 663,881	10.81%	1.92% ⁽⁴⁾
VA Guaranteed	0	0	0.00	1.31
Privately Insured	1	85,277	16.67	1.16 ⁽⁵⁾
USDA/RD Guaranteed.....	3	220,728	10.00	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	12	\$ 969,886 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate of Allocated Program Loans in foreclosure was 0.87%, based on a total of 115 Allocated Program Loans as of December 31, 2017 (unaudited).

The foreclosure rate by loan type for the Allocated Program Loans in foreclosure as of December 31, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA, by loan type, for the quarter ending September 30, 2017, are shown in the following table:

IN FORECLOSURE AS OF DECEMBER 31, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	1	\$ 81,660	1.35%	0.43% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.80
Privately Insured	0	0	0.00	0.41 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	1	\$ 81,660 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the four most recent years and for the three months ended September 30, 2017, and September 30, 2016. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2017, 2016, 2015, and 2014, and from unaudited financial information of THDA for the three months ended September 30, 2017, and September 30, 2016.

	Three Months Ended September 30 (Unaudited)		Year Ended June 30 (Audited)				
Residential Finance Bond Group	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES:							
Interest on Mortgages	\$ 14,320	\$ 10,583	\$ 49,298	\$ 36,426	\$ 25,393	\$ 13,518	\$ 222
Investment Income:							
Interest	680	395	1,617	2,011	1,866	335	10
Net Increase (decrease) in the Fair Value of Investments	(199)	(199)	(792)	(320)	(552)	(146)	(83)
Fees and Other Income	<u>815</u>	<u>508</u>	<u>853</u>	<u>953</u>	<u>160</u>	<u>-</u>	<u>76</u>
	15,616	11,287	50,976	39,070	26,867	13,707	225
EXPENSES:							
Interest	9,147	6,835	30,542	24,876	17,058	9,087	551
Issuance Cost	191	0	3,602	2,311	2,343	2,167	1,679
Mortgage Servicing Fees	1,109	875	3,857	2,967	2,048	980	18
Other	<u>222</u>	<u>186</u>	<u>970</u>	<u>1,157</u>	<u>1,001</u>	<u>239</u>	<u>1</u>
	10,669	7,896	38,971	31,311	22,450	12,473	2,249
Excess of Revenues over Expenses	4,947	3,391	12,005	7,759	4,417	1,234	(2,024)
Net Position at beginning of period	176,030	116,295	116,295	101,055	105,707	(68,279)	-
Other Transfers	<u>(2,503)</u>	<u>(335)</u>	<u>47,730</u>	<u>7,481</u>	<u>(9,069)</u>	<u>172,752</u>	<u>(66,255)</u>
Net Position at end of period	<u>\$ 178,474</u>	<u>\$ 119,351</u>	<u>\$ 176,030</u>	<u>\$ 116,295</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>	<u>\$ (68,279) ⁽¹⁾</u>

⁽¹⁾ On May 30, 2013 THDA issued its Issue 2013-1 Bonds under the General Resolution. Proceeds of the Issue 2013-1 Bonds in an aggregate principal amount of \$75,905,000 were applied to the refunding of THDA's Issue 2003-A Bonds under the 1974 General Resolution and THDA's Issue 2004-1 Bonds under the 1985 General Resolution. While the Issue 2013-1 Bonds were issued on May 30, 2013, the assets allocable to the Issue 2003-A and the Issue 2004-1 Bonds in an aggregate amount of approximately \$99,855,200 did not transfer to the General Resolution until July 1, 2013, the date of the redemption of such bonds. As a result of such transfer, the net position of the General Resolution as of July 1, 2013, was approximately \$31,576,000 (unaudited).

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of December 31, 2017 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 19,248,837	\$ 58,061,327
Federal Home Loan Mortgage Corporation Notes	0	24,891,716
Fannie Mae Notes	11,721,479	8,445,604
Financing Corporation Bonds	0	2,344,134
TOTAL.....	<u>\$ 30,970,316</u>	<u>\$ 93,742,780</u>

As of December 31, 2017 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 1,229,782	\$ 37,679,866
Federal Home Loan Mortgage Corporation Notes	0	99,296
Fannie Mae Notes	0	8,445,604
TOTAL.....	<u>\$ 1,229,782</u>	<u>\$ 46,224,766</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2022.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of December 31, 2017 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$1,967,035,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for

reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors⁽¹⁾ are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Kim Grant Brown, Chairman	June 30, 2019	Owner, Grant & Company Collierville, TN
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Tre Hargett ⁽²⁾	January, 2021	Secretary of State
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
David H. Lillard, Jr. ⁽²⁾	January, 2019	State Treasurer
Larry Martin ⁽²⁾	(3)	Commissioner, Department of Finance and Administration
Austin McMullen	June 30, 2019	Member, Bradley Arant Boult Cummings LLP Nashville
Todd Skelton ⁽²⁾	(3)	Deputy Counsel to the Governor
John K. Snodderly	June 30, 2019	Executive Director, LaFollette Housing Authority LaFollette
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Pieter J. van Vuuren	June 30, 2019	President & CEO, First National Bank of McMinnville McMinnville, TN
Justin Wilson ⁽¹⁾	January, 2019	Comptroller of the Treasury
Mary Mac R. Wilson	June 30, 2021	Director of Parish Operations, Roman Catholic Diocese of Knoxville, Knoxville, TN
Daisy Fields	(4)	Gallatin, TN

(1) One Board of Directors position appointed by the Governor is currently vacant.

(2) Ex officio member.

(3) Serves at pleasure of the Governor.

(4) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 244 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Servicing since 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Operating Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010).

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Conners & Berry (currently Bradley Arrant Boulton Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999); Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the “State”) amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

As of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ended June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees.

The TCRS covers three large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 58,506 active members in TCRS in the state and higher education employee group at June 30, 2017. This total includes 244 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation for the defined benefit plan or contributions to a defined contribution plan.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age 60 or 30 years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute at 5% of salary to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with an overall 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age 65 or the rule of 90 (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan, requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute to TCRS 15.02% of salary for the period July 1, 2016 through June 30, 2017, based on the July 1, 2015 actuarial valuation. The June 30, 2016 actuarial valuation established the employer contribution rate of 18.87% that is applicable for the period July 1, 2017 through June 30, 2018. The June 30, 2017 actuarial valuation will establish employer contribution rates for the period July 1, 2018 through June 30, 2019. General state employees do not contribute to this plan.

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2017 (measurement date of June 30, 2016), the net pension liability for the state and higher education employee group based on the market value of assets was \$1.8 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 87.96%.

Actuarial Data for Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, an actuarial valuation is performed to determine the employer contribution rate as well as the actuarially determined contribution (ADC) and the stabilization reserve rate. For the period July 1, 2016 through June 30, 2017, the overall 4% employer contribution rate to TCRS consists of 3.94% for general employees, with the employer rate for judicial and public safety employees being higher at 6.27% and 4.69%, respectively. The employer contribution rate for general employees of 3.94% consists of 1.13% for the ADC and 2.81% for the stabilization reserve.

For the period July 1, 2017 through June 30, 2018, the employer contribution rate consists of 3.94% for general employees, with the employer rate for judicial and public safety employees being higher at 6.77% and 4.79%, respectively. The employer contribution rate for general employees of 3.94% consists of 1.29% for the ADC and 2.65% for the stabilization reserve.

THDA Employer Contributions for Pensions (TCRS and defined contribution plan)

For THDA, the employer contribution rate for employees hired before July 1, 2014, stated as a percentage of salary, is as follows: 15.02% for the period July 1, 2016 through June 30, 2017, and 18.87% for the period July 1, 2017 through June 30, 2018. For employees first hired after June 30, 2014, the employer rate is 8.87% for the period July 1, 2016 through June 30, 2017 and 8.94% for the period July 1, 2017 through June 30, 2018 (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions for the pension plans are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	THDA Employer Contributions to DC (Open Plan)	Percentage of THDA Budget
2018 ⁽¹⁾	18.87/9.00% ⁽²⁾	\$ 17,415,000 ⁽¹⁾	\$ 2,440,500 ⁽¹⁾	\$ 207,900 ⁽¹⁾	2.37% ⁽¹⁾
2017	15.02/9.00 ⁽²⁾	13,396,776 ⁽³⁾	1,577,092	183,030	1.53
2016	15.03/9.00 ⁽²⁾	11,965,554	1,581,407	100,999	1.38
2015	15.02/9.00 ⁽²⁾	11,569,902	1,673,881	28,731	1.21
2014	15.03	11,721,300	1,761,711		1.19
2013	15.03	11,315,872	1,692,847		1.26
2012	14.91	11,005,204	1,632,095		1.36
2011	14.91	10,593,944	1,585,654		1.25
2010	13.02	9,956,646	1,295,272		1.03
2009	13.02	9,267,262	1,201,303		0.98

(1) Estimated

(2) Varies depending on plan the employee is enrolled in.

(3) The increase in "Total Salary of THDA Employees" from the actual amount for the fiscal year ended June 30, 2016, to the estimated amount for the fiscal year ended June 30, 2017, is due to the additional salaries for approximately thirty eight (38) positions THDA expects to fill in connection with the servicing activities THDA expects to undertake later in 2017.

For the fiscal year ended June 30, 2017, the salary of THDA employees totaled \$13,396,776, which represents 0.47% of the \$2.85 billion of salary for all state and higher education employees in TCRS.

It is anticipated that there will be upward pressure on the employer contribution rate in the Closed State and Higher Education Employee Pension Plan in future actuarial valuations as deferred investment losses that have been actuarially smoothed are recognized over the next ten years as well as a continuing low earnings environment.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

General Information about the 401(k) and 457 Defined Contribution Plans

The state provides additional voluntary defined contribution plans to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Employee contribution limits to the 401(k) and 457 plans are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA. The THDA contribution for the fiscal year ended June 30, 2017 (unaudited) was \$79,509.38.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 43 and 45) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2015, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used a projected unit credit actuarial cost method, indicates that for the fiscal year ended June 30, 2017, the total unfunded actuarial liability of THDA is approximately \$2,923,000 and the annual required contribution for THDA is approximately \$353,000. The annual required contribution consists of the normal cost (the portion of the actuarial present value of OPEB benefits which is allocated to a valuation year by the actuarial cost method) and an amortization of the unfunded actuarial liability. The report may be reviewed at <http://www.tn.gov/finance/article/fa-accfin-opeb>. The State did not pre-fund any actuarially determined OPEB liability, and continued to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for fiscal year ended June 30, 2017. The State charged THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that interest on the Issue 2018-1 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code. No federal alternative minimum tax applies to corporations for tax years beginning after December 31, 2017.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a "Premium Bond") over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or otherwise prevent beneficial owners of the Issue 2018-1 Bonds from realizing the full current benefit of the tax status of such interest, or adversely affect the market value of the Issue 2018-1 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Issue 2018-1 Bonds. Purchasers of the Issue 2018-1 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Issue 2018-1 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation, regulatory initiatives or litigation.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") assigned the Offered Bonds a rating of 'Aa1' and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

Due to the ongoing uncertainty regarding the economy of the United States of America (including, without limitation, matters such as the current and future political uncertainty regarding the United States debt limit), obligations, such as the Offered Bonds, issued by state and local governments, and instrumentalities thereof, could be subject to a

rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Offered Bonds. When certain automatic spending cuts are imposed on the federal government as a result of actions taken or not taken by the federal government (commonly referred to as a sequester) or when the federal government fails to pass certain spending authorizations prior to certain deadlines, resulting in a cessation of various governmental functions and operations (commonly referred to as a government shutdown), there may not be any immediate direct adverse impact on FHA, VA, RD or THDA. No assurance can be given, however, that a sequester or a government shutdown that lasts an extended period of time would continue to have no direct adverse impact upon the United States housing industry in general or THDA in particular.

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, THDA, in the Issue 2018-1 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2018-1 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MSRB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement

or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2018-1 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2018-1 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2018-1 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2018-1 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MRSB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2017, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the three months ended September 30, 2017. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

Raymond James & Associates, Inc., Citigroup Global Markets Inc., LLC, RBC Capital Markets, J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and Wiley Bros.—Aintree Capital, LLC (collectively, the "Underwriters") have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$617,164.57. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

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

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Offered Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Offered Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Offered Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Offered Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the

laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Kim Grant Brown

Chair

/s/ Ralph M. Perrey

Executive Director



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

APPENDIX A
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and the other postemployment benefits schedule of funding progress, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA
Director
December 11, 2017

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2017

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2017, with comparative information presented for the fiscal year ended June 30, 2016. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

Introduction – The Tennessee Housing Development Agency

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2017, THDA has originated over 116,000 single-family mortgage loans in its 44-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated*, Section 13-23-105). This board meets regularly on a bimonthly basis; however, some committees may meet more often as situations dictate.

Overview of the Financial Statements

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discretely presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <http://www.tn.gov/finance/article/fa-accfin-cafr>.

Financial Highlights

Year Ended June 30, 2017

- Total assets increased by \$99.1 million, or 4.0%.
- Total liabilities increased by \$102.4 million, or 5.2%.
- Net position was \$510.0 million. This is a decrease of \$1.0 million, or 0.2%, from fiscal year 2016.
- Cash and cash equivalents increased by \$137.3 million, or 59.2%.
- Total investments decreased by \$68.5 million, or 24.9%.
- Bonds payable increased by \$74.0 million, or 3.9%.
- THDA originated \$325.9 million in new loans, which is an increase of \$32.4 million, or 11.0%, from the prior year.

Financial Analysis of the Agency

Net Position – The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	2017	2016
Current assets	\$ 427,265	\$ 393,675
Capital assets	1,809	1,175
Other noncurrent assets	2,146,413	2,081,560
Total assets	2,575,487	2,476,410
Deferred outflows of resources	4,726	3,142
Current liabilities	185,772	149,798
Noncurrent liabilities	1,883,961	1,817,534
Total liabilities	2,069,733	1,967,332
Deferred inflows of resources	514	1,288
Invested in capital assets	1,809	1,175
Restricted net position	430,633	430,114
Unrestricted net position	77,524	79,643
Total net position	\$ 509,966	\$ 510,932

2017 to 2016

THDA's total net position decreased by \$1.0 million because operating income was less than the amount by which nonoperating expenses exceeded nonoperating revenues.

First and second mortgage loans (net of allowance for forgivable second mortgages) receivable increased by \$31.7 million. During fiscal year 2017, single-family mortgage loan originations increased by \$32.4 million, whereas mortgage loan payoffs decreased by \$23.1 million and mortgage loan repayments decreased \$2.4 million. In addition, THDA recognized an allowance for future forgiveness of forgivable second mortgages of \$10.0 million for fiscal year 2017.

Total liabilities increased \$102.4 million. The increase is primarily due to a \$74.0 million increase of bonds payable at June 30, 2017, as compared to June 30, 2016.

Changes in Net Position – The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	2017	2016
Operating revenues		
Mortgage interest income	\$ 87,963	\$ 90,235
Investment income	1,743	5,872
Other	18,546	17,052
Total operating revenues	108,252	113,159
Operating expenses		
Interest expense	56,892	62,045
Other	41,980	41,916
Total operating expenses	98,872	103,961
Operating income	9,380	9,198
Nonoperating revenues (expenses)		
Grant revenues	277,877	269,226
Grant expenses	(288,223)	(281,899)
Total nonoperating revenues (expenses)	(10,346)	(12,673)
Change in net position	\$ (966)	\$ (3,475)

2017 to 2016

Total operating revenues decreased \$4.9 million, primarily due to a decrease in investment income of \$4.1 million. During fiscal year 2017, certain long-term investments with high interest yields matured, which were re-invested into other investments having contemporary investment yields. In addition, fair value of investments decreased by \$3.8 million in fiscal year 2016 and decreased by \$5.6 million in fiscal year 2017.

Total operating expenses decreased \$5.1 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

Debt Activity – Bonds outstanding at June 30 were as follows (expressed in thousands):

	2017	2016
Bonds payable	\$1,980,456	\$1,906,494

Year Ended June 30, 2017

Total bonds payable increased \$74.0 million, which is deemed an insignificant year-over-year variance. During the fiscal year, THDA issued debt totaling \$462.0 million, with activity arising from four bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$47.7 million of outstanding bonds into new bond originations with lower interest rates. In addition to the nominal tax-exempt mortgage revenue bonds issued, THDA also issued one taxable bond issue primarily for economic refunding opportunities.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard & Poor's Ratings Services (S&P), a division of The McGraw-Hill Companies, Inc., has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during fiscal year 2017 or fiscal year 2016.

Debt Limits

In accordance with *Tennessee Code Annotated*, Section 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

Grant Programs

During fiscal year 2007 through fiscal year 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors allocated additional THDA funds for grants. These funds established a grant program that was titled by THDA the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

	2017	2016	2015 and Prior	Total
Funding Sources:				
THDA	\$7,500,000	\$7,500,000	\$59,800,000	\$74,800,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	\$7,500,000	\$7,500,000	\$64,150,000	\$79,150,000
Approved Uses:				
Rural repair program (USDA)	\$ -	\$ -	\$ 6,300,000	\$ 6,300,000
Ramp Programs & Hsg Modification	300,000	-	1,350,000	1,650,000
Emergency Repairs	2,700,000	2,700,000	15,800,000	21,200,000
Competitive Grants	3,500,000	2,800,000	34,800,000	41,100,000
Rebuild & Recover	500,000	500,000	2,800,000	3,800,000
Other Grants	500,000	1,500,000	3,100,000	5,100,000

Totals	\$7,500,000	\$7,500,000	\$64,150,000	\$79,150,000

Current Mortgage Products and Environment

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the Great Choice and the Great Choice Plus loan programs were introduced and the Great Rate, Great Advantage, and Great Start loan programs were eliminated. The Great Choice loan program offers THDA the opportunity to offer a more competitive interest rate on its 30-year fixed rate mortgage product while still offering down payment assistance with the addition of the Great Choice Plus loan program, which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the Great Choice Plus loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15. Subsequently, in October of 2016, the Great Choice Loan product was revised to feature a 30-year forgiveness requirement, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced or otherwise paid in full within the first 30 years of closing.

A special interest rate reduction on the Great Choice loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as “Homeownership for the Brave,” provides a 0.5% rate reduction on the current interest rate for Great Choice loans. In addition to the rate reduction, Homeownership for the Brave applicants are eligible for optional down payment and closing cost assistance through the Great Choice Plus second mortgage loan at a 0% interest rate.

All first mortgage loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages, interest-only mortgages, “buy-down” loans, mortgages with a future lump-sum payment due (balloon-type mortgages), or with other similar mortgage terms. THDA does not make or purchase “sub-prime” mortgage loans. Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor’s Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae

or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have LTV ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's Internet site at <https://thda.org/homebuyers/homebuyers>.

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2017, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principle Amount Outstanding	Percentage ¹
60 – 89 Days Past Due	23,187	413	\$ 33,195,660	1.78%
90+ Days Past Due	23,187	1,388	108,494,506	5.99%
In Foreclosure	23,187	163	15,139,374	0.69%

Economic Factors

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a benchmark, THDA uses the one-, three-, and five-year Constant Maturity Treasury rates as established by the United States Treasury.

The continuation of relatively low interest rates from a historic perspective increases the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

Direct Loan Servicing

During FY 2017, THDA began the direct servicing of mortgage loans under the name of Volunteer Mortgage Loan Servicing ("VMLS"). On November 1, 2016, the servicing of approximately 1,800 THDA mortgage loans having an outstanding principal balance of \$91.5 million was transferred to VMLS from an existing THDA mortgage servicer.

Contacting THDA's Financial Management

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends.

¹ Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

If you have questions about this report or need additional financial information, contact Trent Ridley, Chief Financial Officer, at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2017
(Expressed in Thousands)

ASSETS

Current assets:		
Cash and cash equivalents (Note 2)	\$	262,872
Investments (Note 2)		61,346
Receivables:		
Accounts		993
Interest		11,531
First mortgage loans		62,336
Due from federal government		28,186
Prepaid expenses		<u>1</u>
Total current assets		<u>427,265</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		106,050
Investments (Note 2)		95,738
Investment interest receivable		881
Investments (Note 2)		49,135
First mortgage loans receivable		1,870,877
Second mortgage loans receivable		30,559
Allowance for forgivable second mortgages		(9,984)
Advance to local government		3,124
Net pension asset (Note 5)		33
Capital assets:		
Furniture and equipment		3,565
Less accumulated depreciation		<u>(1,756)</u>
Total noncurrent assets		<u>2,148,222</u>
Total assets		<u>2,575,487</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refundings		862
Deferred outflows related to pensions (Note 5)		<u>3,864</u>
Total deferred outflows of resources		<u>4,726</u>

LIABILITIES

Current liabilities:		
Accounts payable		13,359
Accrued payroll and related liabilities		632
Compensated absences		667
Due to primary government		723
Interest payable		29,855
Escrow deposits		1,536
Prepayments on mortgage loans		1,279
Due to federal government		26,301
Bonds payable (Note 3)		<u>111,420</u>
Total current liabilities		<u>185,772</u>
Noncurrent liabilities:		
Bonds payable (Note 3)		1,869,036
Compensated absences		647
Net pension liability (Note 5)		7,652
Net OPEB obligation (Note 9)		1,661
Escrow deposits		3,855
Arbitrage rebate payable		<u>1,110</u>
Total noncurrent liabilities		<u>1,883,961</u>
Total liabilities		<u>2,069,733</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 5)		<u>514</u>
Total deferred inflows of resources		<u>514</u>

NET POSITION

Net investment in capital assets		1,809
Restricted for single family bond programs (Note 4 and Note 7)		418,137
Restricted for grant programs (Note 4)		9,310
Restricted for Homebuyers Revolving Loan Program (Note 4)		3,153
Restricted for net pension asset (Note 5)		33
Unrestricted (Note 7)		<u>77,524</u>
Total net position	\$	<u>509,966</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

OPERATING REVENUES

Mortgage interest income	\$ 87,963
Investment income:	
Interest	7,319
Net (decrease) in the fair value of investments	(5,576)
Federal grant administration fees	13,784
Fees and other income	4,762
Total operating revenues	<u>108,252</u>

OPERATING EXPENSES

Salaries and benefits	18,404
Contractual services	5,665
Materials and supplies	1,576
Rentals and insurance	25
Other administrative expenses	694
Other program expenses	5,273
Interest expense	56,892
Mortgage service fees	6,391
Issuance costs	3,602
Depreciation	350
Total operating expenses	<u>98,872</u>
Operating income	<u>9,380</u>

NONOPERATING REVENUES (EXPENSES)

Federal grants revenue	277,873
Other grants revenue	4
Federal grants expenses	(277,717)
Local grants expenses	(10,506)
Total nonoperating revenues (expenses)	<u>(10,346)</u>
Change in net position	<u>(966)</u>
Total net position, July 1	<u>510,932</u>
Total net position, June 30	<u>\$ 509,966</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 386,565
Receipts from federal government	13,867
Receipts from other funds	551
Other miscellaneous receipts	4,762
Acquisition of mortgage loans	(325,857)
Payments to service mortgages	(6,391)
Payments to suppliers	(9,197)
Payments to federal government	(3,684)
Payments to other funds	(551)
Payments to or for employees	(18,852)
Net cash provided by operating activities	<u>41,213</u>
Cash flows from non-capital financing activities:	
Operating grants received	300,591
Proceeds from sale of bonds	473,792
Operating grants paid	(285,422)
Call premium paid	(36)
Cost of issuance paid	(3,602)
Principal payments	(393,570)
Interest paid	(65,442)
Net cash provided by non-capital financing activities	<u>26,311</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(983)
Net cash used by capital and related financing activities	<u>(983)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	389,882
Purchases of investments	(327,170)
Investment interest received	7,780
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	219
Net cash provided by investing activities	<u>70,711</u>
Net increase in cash and cash equivalents	137,252
Cash and cash equivalents, July 1	<u>231,670</u>
Cash and cash equivalents, June 30	\$ <u>368,922</u>

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ <u>9,380</u>
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Depreciation	350
Changes in assets and liabilities:	
Decrease in accounts receivable	3,067
Decrease in mortgage interest receivable	398
(Increase) in pension asset	(20)
(Increase) in deferred pension outflows	(1,703)
(Increase) in mortgage loans receivable	(31,780)
Decrease in due from federal government	83
Increase in accounts payable	3,395
Increase in accrued payroll /	
compensated absences	176
Increase in due to primary government	651
(Decrease) in arbitrage rebate liability	(2,984)
Increase in pension liability	2,223
(Decrease) in deferred pension inflows	(774)
Investment income included as operating revenue	(1,743)
Interest expense included as operating expense	56,892
Issuance cost included as operating expense	<u>3,602</u>
Total adjustments	<u>31,833</u>
Net cash provided by operating activities	\$ <u><u>41,213</u></u>
Noncash investing, capital, and financing activities:	
(Decrease) in fair value of investments	\$ <u>(3,111)</u>
Total noncash investing, capital, and financing activities	\$ <u><u>(3,111)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee Housing Development Agency (THDA) was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as ex officio board members of the agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and Title 24, *Code of Federal Regulations*, Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

THDA is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds

Notes to the Financial Statements (Continued)

and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, the Tax and Insurance Holding/Escrow account, Payment Clearing and Disbursement accounts, and Net Pension Assets (see note 4).

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

The Tax and Insurance Holding/Escrow account is used to service mortgage accounts. These funds are tax and insurance escrows held on behalf of various mortgagors from payments collected on mortgages. The agency is obligated to expend these monies on escrowed items. The Payment Clearing and Disbursement accounts are also used to service mortgages.

Deferred Amount on Refundings and Bond Premiums and Discounts

Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.

Notes to the Financial Statements (Continued)

Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

Mortgages

Mortgages are carried at their original amount less collected principal.

Loan Servicing

On November 1, 2016, THDA began servicing the mortgage loans previously serviced by an approved THDA Loan Servicer and in May of 2017 began servicing the loans originated from THDA's Originating Agents.

Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds.

Notes to the Financial Statements (Continued)

outstanding. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Allowance for Forgivable Second Mortgages

THDA has offered the Down Payment Assistance product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period.

Beginning in April 2017 this product changed to 100% forgivable second mortgage loan for the 30-year term of the first mortgage. It is 100% repayable in the event the home is sold, refinanced or owners move out of the home. Because of the likelihood that the majority of second mortgage loans will be repaid in the course of the 30-year term, the allowance account established for the second mortgage loans beginning October 2014 will not be used for any second mortgages made after March 2017.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Note 2. Deposits and Investments

Deposits

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

Notes to the Financial Statements (Continued)

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2017, the bank balance was \$32,272,907. This amount includes \$1,744,933; which is held in a T&I Escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf. All bank balances at June 30, 2017, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2017, \$28,690,966 was in the BNYM. Of this amount, \$28,440,966 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the State of Tennessee Treasurer's Report. That report is available on the state's website at www.treasury.tn.gov.

Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk – Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Notes to the Financial Statements (Continued)

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

June 30, 2017		
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$124,172,337	1.728
U.S. Treasury Coupon	27,114,235	2.056
U.S. Agency Discount	162,862,870	0.084
Total	\$314,149,442	0.905

Fair Value Measurements – THDA implemented GASB Statement 72, *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2017, (expressed in thousands):

June 30, 2017				
Assets by Fair Value Level	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Agency Coupon	\$124,172	\$ -	\$124,172	\$ -
U.S. Treasury Coupon	27,114	27,114	-	-
U.S. Agency Discount	162,863	-	162,863	-
Total debt securities	\$314,149	\$27,114	287,035	\$ -

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets as those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets as those securities. Level 3 valuations are derived from valuation techniques in which significant inputs are unobservable.

Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to the Investments section of Note 1 for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2017, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

Notes to the Financial Statements (Continued)

June 30, 2017					
Investment Type	Fair Value	U.S. Treasury ¹	AAA	AA+	Not Rated ²
U.S. Agency Coupon	\$124,172,337	\$ -	\$ -	\$121,738,787	\$ 2,433,550
U.S. Treasury Coupon	27,114,235	27,114,235	-	-	-
U.S. Agency Discount	162,862,870	-	-	-	162,862,870
Total	\$314,149,442	\$27,114,235	\$-	\$121,738,787	\$165,296,420

In addition to these investments, the agency has \$229,226,502 invested in a money market fund. This fund is measured at amortized cost and has a Standard and Poors rating of AAA.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

June 30, 2017		
Issuer	<u>Fair Value</u> <u>(Thousands)</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$178,179	56.72
Federal Home Loan Mortgage Corp.	\$31,734	10.10
Federal National Mortgage Assoc.	\$74,688	23.77

GASB 79 Disclosures – During fiscal year 2016, THDA implemented GASB Statement 79, *Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that THDA participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of \$5 million or more.

Note 3. Liabilities

Bonds Issued and Outstanding

Homeownership Program Bonds				Ending Balance 6/30/2017
Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	(Thousands)
2007-4	1/1/2009 – 7/1/2038	150,000	3.75 to 5.50	23,110
2008-1	7/1/2009 – 1/1/2039	60,000	2.45 to 5.70	12,920
2009-1	1/1/2010 – 7/1/2029	50,000	0.75 to 5.00	17,060

¹ This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

² This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

Notes to the Financial Statements (Continued)

2009-2	7/1/2010 – 7/1/2030	75,000	0.90 to 5.00	22,125
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50	43,110
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65	77,430
2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50	71,785
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00	55,795
Total Homeownership Program Bonds		\$827,690		\$ 323,335
Plus: Unamortized Bond Premiums				2,817
Net Homeownership Program Bonds				<u>\$326,152</u>

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2017 (Thousands)
2009-A	1/1/2011 – 1/1/2040	\$100,000	0.90 to 4.625	\$ 11,265
2010-A	1/1/2011 – 7/1/2041	160,000	0.60 to 5.00	16,840
2010-B	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	49,435
2011-A	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	14,900
2011-B	7/1/2012 – 7/1/2041	100,000	0.25 to 4.50	54,985
2011-C	7/1/2012 – 7/1/2041	100,000	0.40 to 4.30	52,385
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	118,405
Total Housing Finance Program Bonds		\$810,000		\$318,215
Plus: Unamortized Bond Premiums				3,521
Net Housing Finance Program Bonds				<u>\$321,736</u>

Residential Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2017 (Thousands)
2013-1	1/1/2014 – 7/1/2043	\$ 215,905	0.40 to 4.00	\$ 122,355
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	79,315
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	110,980
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	122,025
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	135,000
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	157,285
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	117,765
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	120,775
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	62,000
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	100,000
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	175,000
Total Residential Finance Program Bonds		\$1,549,205		\$1,302,500
Plus: Unamortized Bond Premiums				30,079
Net Residential Finance Program Bonds				<u>\$1,332,579</u>
Net Total All Bonds				<u>\$1,980,467</u>

Housing Finance Program Bonds – The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New

Notes to the Financial Statements (Continued)

Issue Bond Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

Debt Service Requirements

Debt service requirements to maturity at June 30, 2017, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2018	\$ 40,650	\$ 62,967	\$ 103,617
2019	70,865	65,092	135,957
2020	73,235	63,386	136,621
2021	77,710	61,470	139,180
2022	76,730	59,291	136,021
2023 – 2027	387,255	259,290	646,545
2028 – 2032	379,994	193,992	573,986
2033 – 2037	374,226	123,720	497,946
2038 – 2042	331,540	57,686	389,226
2043 - 2047	131,845	10,269	142,114
Total	\$1,944,050	\$957,163	\$2,901,213

Redemption of Bonds and Notes

During the year ended June 30, 2017, bonds were retired at par before maturity in the Homeownership Program in the amount of \$97,236,000, in the Housing Finance Program in the amount of \$70,510,000, and in the Residential Finance Program in the amount of \$111,550,000.

Notes to the Financial Statements (Continued)

The respective carrying values of the bonds were \$98,407,537, \$71,242,629 and \$114,475,759. This resulted in revenue to the Homeownership Program of \$1,171,537, to the Housing Finance Program of \$732,629, and to the Residential Finance Program of \$2,925,759.

On May 18, 2016, the agency issued \$125,000,000 in Residential Finance Program Bonds, Issue 2016-1. On July 1, 2016, the agency used \$24,060,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$24,060,000 early redemption). The carrying amount of these bonds was \$24,060,000. The refunding increased the agency's debt service by \$5,737,592 over the next 20.00 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$3,034,466.

On October 18, 2016, the agency issued \$125,000,000 in Residential Finance Program Bonds, Issue 2016-2. On January 1, 2017, the agency used \$24,205,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$24,205,000 early redemption). The carrying amount of these bonds was \$24,205,000. The refunding reduced the agency's debt service by \$292,971 over the next 20.00 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$3,273,731.

On November 16, 2016, the agency issued \$62,000,000 in Residential Finance Program Bonds, Issue 2016-3. On January 1, 2017, the agency used \$62,000,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$62,000,000 early redemption). The carrying amount of these bonds was \$63,848,048. The refunding reduced the agency's debt service by \$29,424,149 over the next 20.125 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$16,645,830.

On March 30, 2017, the agency issued \$100,000,000 in Residential Finance Program Bonds, Issue 2017-1.

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2017 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2016	Additions	Reductions	Ending Balance June 30, 2017	Amounts Due Within One Year³
Bonds Payable	\$1,875,620	\$462,000	(\$393,570)	\$1,944,050	\$111,420,
Plus: Unamortized Bond Premiums	30,916	11,995	(6,505)	36,406	-
Less: Unamortized Bond Discounts	(42)	-	42	-	-
Compensated Absences	1,244	70	-	1,314	667
Net Pension Liability	5,429	3,784	(1,561)	7,652	-
Escrow Deposits	3,437	4,798	(2,844)	5,391	1,536

³Amounts due within one year include management authorized bond refundings at June 30.

Notes to the Financial Statements (Continued)

Arbitrage Rebate Payable	4,094	700	(3,684)	1,110	-
Total	\$1,920,698	\$483,347	(\$408,122)	\$1,995,923	\$113,623

Note 4. Restricted Net Position

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

Note 5. Pension Plans

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Notes to the Financial Statements (Continued)

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. THDA employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2017, to the Closed State and Higher Education Employee Pension Plan were \$1,542,218, which is 15.02 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2017, THDA reported a liability of \$7,652,061 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial

valuation as of that date. THDA's proportion of the net pension liability was based on a projection of THDA's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, THDA's proportion was 0.419391 percent. The proportion measured as of June 30, 2015, was 0.421046.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, THDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 429,122	\$ 406,599
Net difference between projected and actual earnings on pension plan investments	1,850,632	-
Changes in proportion	-	103,989
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2016	1,542,218	-
Total	\$3,821,972	\$510,588

Deferred outflows of resources, resulting from THDA's employer contributions of \$1,542,218 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$63,089
2019	63,089
2020	1,105,389
2021	537,600
2022	-
Thereafter	-

Actuarial assumptions – The total pension liability as of the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Notes to the Financial Statements (Continued)

Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012, actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-

Notes to the Financial Statements (Continued)

term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents THDA’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what THDA’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency’s proportionate share of the net pension liability	\$15,037,844	\$7,652,061	1,424,149

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2017, THDA reported a payable of \$61,261 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2017.

State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description – State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under *Tennessee Code Annotated* Title 8, Chapters 34-37.

Benefits provided – *Tennessee Code Annotated* Title 8, Chapters 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member’s age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member’s highest five consecutive year average compensation by 1.0 percent multiplied by member’s years of service credit. A reduced early retirement benefit is available at age 60 with

Notes to the Financial Statements (Continued)

5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2017, to the State and Higher Education Employee Retirement Plan were \$34,927, which is 1.14 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Asset, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2017, THDA reported an asset of \$33,000 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA's proportion of the net pension asset was based on a projection of THDA's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, THDA's proportion was 0.391715 percent. The proportion measured as of June 30, 2015, was 0.457171.

Notes to the Financial Statements (Continued)

Pension expense – For the year ended June 30, 2017, THDA recognized a pension expense of \$18,614. Allocated pension expense was \$18,475 before being increased by \$139 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,401	\$3,546
Net difference between projected and actual earnings on pension plan investments	3,848	-
Changes in proportion	1,110	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2016	34,927	-
Total	\$42,286	\$3,546

Deferred outflows of resources, resulting from THDA's employer contributions of \$34,927 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$ 934
2019	934
2020	934
2021	776
2022	(68)
Thereafter	303

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension asset as of the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012, actuarial experience study and included some adjustment for expected future improvement in life expectancy.

Notes to the Financial Statements (Continued)

The actuarial assumptions used in the June 30, 2016, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents THDA's proportionate share of the net pension asset calculated using the discount rate of 7.5 percent, as well as what THDA's proportionate share of the net pension asset

Notes to the Financial Statements (Continued)

would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension asset	\$3,946	\$33,000	\$54,766

Payable to the Pension Plan

At June 30, 2017, THDA reported a payable of \$1,820 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2017 for both defined benefit pension plans was \$1,303,618.

Note 6. Deferred Compensation Plans

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code, Section 457, and the other pursuant to *Internal Revenue Code* (IRC), Section 401(k). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The THDA provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The THDA recognized a pension expense of \$262,539 for employer contributions.

Notes to the Financial Statements (Continued)

The THDA recognized a pension payable of \$13,001 for employer contributions

Note 7. Provisions for Mortgage Loan Losses

Most mortgage loans are insured by the Federal Housing Administration, an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

Note 8. Insurance-Related Activities

Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property; crime and fidelity coverage on the state's officials and employees; and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

Notes to the Financial Statements (Continued)

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2017, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2017, the Risk Management Fund held \$167 million in cash designated for payment of claims.

Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 9. Other-Postemployment Benefits

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated*, Section 8-27-201. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. Any employee hired on or after July 1, 2015, is not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Notes to the Financial Statements (Continued)

Special Funding Situation – The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including THDA (see Note 10). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy – The premium requirements of plan members of the State Employment Group Plan are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan, adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 25 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retirees 65 years of age or older are provided flat-rate premium subsidies, based on years of service. Retirees with 30 years of service receive \$50 per month; retirees with 25 but less than 30 years of service, \$37.50; and retirees with 15 but less than 20 years of service, \$25.

THDA Annual OPEB Cost and Net OPEB Obligation State Employee Group Plan (Thousands)

	June 30, 2017
Annual Required Contribution (ARC)	\$353
Interest on the Net OPEB Obligation	60
Adjustment to the ARC	(60)
Annual OPEB cost	353
Amount of contribution	(294)
Increase in Net OPEB Obligation	59
Net OPEB Obligation-beginning of year	1,602
Net OPEB Obligation-end of year	<u>\$1,661</u>

Year End	Plan	Annual OPEB Cost (Thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End (Thousands)
6/30/2017	State Employee Group Plan	\$353	83%	\$1,661
6/30/2016	State Employee Group Plan	\$341	74%	\$1,602
6/30/2015	State Employee Group Plan	\$357	71%	\$1,516

Funded Status and Funding Progress – The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2015, was as follows (expressed in thousands):

Actuarial valuation date	7/01/2015
Actuarial accrued liability (AAL)	\$ 2,923
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 2,923
Actuarial value of assets as a % of the AAL	0%

Notes to the Financial Statements (Continued)

Covered payroll (active plan members)	\$10,046
UAAL as a percentage of covered payroll	29%

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions – Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2015, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreases to 6% in fiscal year 2016, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

Note 10. On-Behalf Payments

During the year ended June 30, 2017, the State of Tennessee made payments of \$7,163 on behalf of THDA for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 11. Payments to Primary Government

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157

Notes to the Financial Statements (Continued)

from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

Note 12. Subsequent Events

Residential Finance Program Bonds, Issue 2017-3, were sold on September 28, 2017. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2017-3	7/1/2018 – 1/1/2048	\$99,900,000	0.800 to 3.650

Residential Finance Program Bonds, Issue 2017-4, were authorized by the board of directors on September 22, 2017, not to exceed \$100,000,000. The sale of the bonds will occur no later than February 28, 2018.

In order to preserve Tax-Exempt Private Activity Bond volume capacity, Residential Finance Program Convertible Option Bonds, Issue 2017-5, were authorized by the board of directors on November 14, 2017, not to exceed \$900,000,000. The sale of the bonds will occur no later than December 31, 2017.

Note 13. Events (Unaudited) Subsequent to the Date of the Independent Auditor's Report

Residential Finance Program Bonds, Issue 2017-4, were sold on December 19, 2017. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2017-4	7/1/2018 – 7/1/2048	\$99,900,000	0.950 to 4.000

Due to final tax law changes, THDA did not close Issue 2017-5.

Residential Finance Program Bonds, Issue 2018-1, were authorized by the board of directors on January 23, 2018, not to exceed \$150,000,000. The sale of the bonds will occur no later than June 30, 2018.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA's Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
2017	0.391715%	\$33	\$1,661	1.99%	130.56%
2016	0.457171%	\$13	\$498	2.60%	142.55%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.419391%	\$7,652	\$10,240	74.73%	87.96%
2016	0.421046%	5,429	10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
State and Higher Education Employee Retirement Plan

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2017	\$35	\$35	\$-	\$3,068	1.14%
2016	47	47	-	1,661	2.81%
2015	19	19	-	498	3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2017	\$1,542	\$1,542	\$-	\$10,268	15.02%
2016	1,539	1,539	-	10,240	15.03%
2015	1,652	1,652	-	10,994	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%
2009	1,201	1,201	-	9,224	13.02%
2008	1,297	1,297	-	9,522	13.62%

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Other Postemployment Benefits Schedule of Funding Progress

(Expressed in Thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2015	State Employee Group Plan	\$-	\$2,923	\$2,923	0%	\$10,046	29%
7/1/2013	State Employee Group Plan	\$-	\$2,964	\$2,964	0%	\$ 9,841	30%
7/1/2011	State Employee Group Plan	\$-	\$2,919	\$2,919	0%	\$ 9,818	30%

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 942	\$ 20,592	\$ 42,719	\$ 32,791	\$ 165,828	\$ 262,872
Investments	-	598	9,620	4,577	46,551	61,346
Receivables:						
Accounts	-	211	-	-	782	993
Interest	-	19	2,561	2,560	6,391	11,531
First mortgage loans	156	2,087	17,772	9,326	32,995	62,336
Due from federal government	28,186	-	-	-	-	28,186
Due from other funds	1,863	-	-	-	427	2,290
Prepaid expenses	1	-	-	-	-	1
Total current assets	31,148	23,507	72,672	49,254	252,974	429,555
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	30,424	-	47,337	7,509	20,780	106,050
Investments	-	-	56,784	13,697	25,257	95,738
Investment Interest receivable	-	-	769	48	64	881
Investments	-	1,787	-	-	47,348	49,135
First mortgage loans receivable	544	47,969	328,173	310,642	1,183,549	1,870,877
Second mortgage loans receivable	-	-	30,559	-	-	30,559
Allowance for forgivable second	-	-	(9,984)	-	-	(9,984)
Advance to local government	3,124	-	-	-	-	3,124
Net pension asset	33	-	-	-	-	33
Capital assets:						
Furniture and equipment	3,565	-	-	-	-	3,565
Less accumulated depreciation	(1,756)	-	-	-	-	(1,756)
Total noncurrent assets	35,934	49,756	453,638	331,896	1,276,998	2,148,222
Total assets	67,082	73,263	526,310	381,150	1,529,972	2,577,777
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	640	862
Deferred outflows related to pension	3,864	-	-	-	-	3,864
Total deferred outflows of resources	3,864	-	222	-	640	4,726
LIABILITIES						
Current liabilities:						
Accounts payable	11,307	2	1,221	779	50	13,359
Accrued payroll and related liabilities	632	-	-	-	-	632
Compensated absences	667	-	-	-	-	667
Due to primary government	723	-	-	-	-	723
Interest payable	-	-	6,463	5,414	17,978	29,855
Escrow deposits	1,536	-	-	-	-	1,536
Prepayments on mortgage loans	10	-	235	175	859	1,279
Due to federal government	26,301	-	-	-	-	26,301
Due to other funds	-	-	2,290	-	-	2,290
Bonds payable	-	-	52,990	13,485	44,945	111,420
Total current liabilities	41,176	2	63,199	19,853	63,832	188,062
Noncurrent liabilities:						
Bonds payable	-	-	273,162	308,251	1,287,623	1,869,036
Compensated absences	647	-	-	-	-	647
Net pension liability	7,652	-	-	-	-	7,652
Net OPEB obligation	1,661	-	-	-	-	1,661
Escrow deposits	608	120	-	-	3,127	3,855
Arbitrage rebate payable	-	-	1,110	-	-	1,110
Total noncurrent liabilities	10,568	120	274,272	308,251	1,290,750	1,883,961
Total liabilities	51,744	122	337,471	328,104	1,354,582	2,072,023
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pension	514	-	-	-	-	514
Total deferred inflows of resources	514	-	-	-	-	514
NET POSITION						
Net investment in capital assets	1,809	-	-	-	-	1,809
Restricted for single family bond program	-	-	189,061	53,046	176,030	418,137
Restricted for grant programs	-	9,310	-	-	-	9,310
Restricted for Homebuyers Revolving Fund	3,153	-	-	-	-	3,153
Restricted for net pension asset	33	-	-	-	-	33
Unrestricted	13,693	63,831	-	-	-	77,524
Total net position	\$ 18,688	\$ 73,141	\$ 189,061	\$ 53,046	\$ 176,030	\$ 509,966

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ -	\$ 44	\$ 22,459	\$ 16,162	\$ 49,298	\$ 87,963
Investment income:						
Interest	71	110	4,863	658	1,617	7,319
Net (decrease) in the fair value of investments	-	(6)	(4,464)	(314)	(792)	(5,576)
Federal grant administration fees	13,784	-	-	-	-	13,784
Fees and other income	3,909	-	-	-	853	4,762
Total operating revenues	17,764	148	22,858	16,506	50,976	108,252
OPERATING EXPENSES						
Salaries and benefits	18,404	-	-	-	-	18,404
Contractual services	5,664	-	-	-	1	5,665
Materials and supplies	1,576	-	-	-	-	1,576
Rentals and insurance	25	-	-	-	-	25
Other administrative expenses	694	-	-	-	-	694
Other program expenses	602	2	3,440	260	969	5,273
Interest expense	10	-	15,401	10,939	30,542	56,892
Mortgage service fees	-	106	1,232	1,196	3,857	6,391
Issuance costs	-	-	-	-	3,602	3,602
Depreciation	350	-	-	-	-	350
Total operating expenses	27,325	108	20,073	12,395	38,971	98,872
Operating income (loss)	(9,561)	40	2,785	4,111	12,005	9,380
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	277,873	-	-	-	-	277,873
Other grant revenue	-	4	-	-	-	4
Federal grants expenses	(277,717)	-	-	-	-	(277,717)
Local grants expenses	(10,506)	-	-	-	-	(10,506)
Total nonoperating revenues (expenses)	(10,350)	4	-	-	-	(10,346)
Income (loss) before transfers	(19,911)	44	2,785	4,111	12,005	(966)
Transfers (to) other funds	-	-	(64,508)	(1,276)	-	(65,784)
Transfers from other funds	17,899	155	-	-	47,730	65,784
Change in net position	(2,012)	199	(61,723)	2,835	59,735	(966)
Total net position, July 1	20,700	72,942	250,784	50,211	116,295	510,932
Total net position, June 30	\$ 18,688	\$ 73,141	\$ 189,061	\$ 53,046	\$ 176,030	\$ 509,966

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ 2,050	\$ 2,725	\$ 125,063	\$ 80,599	\$ 176,128	\$ 386,565
Receipts from federal government	13,867	-	-	-	-	13,867
Receipts from other funds	326	-	225	-	-	551
Other miscellaneous receipts	3,909	-	-	-	853	4,762
Acquisition of mortgage loans	-	(5,052)	(20,848)	-	(299,957)	(325,857)
Payments to service mortgages	-	(106)	(1,232)	(1,196)	(3,857)	(6,391)
Payments to suppliers	(8,271)	(2)	-	-	(924)	(9,197)
Payments to federal government	-	-	(3,684)	-	-	(3,684)
Payments to other funds	-	-	-	-	(551)	(551)
Payments to or for employees	(18,852)	-	-	-	-	(18,852)
Net cash provided (used) by operating activities	(6,971)	(2,435)	99,524	79,403	(128,308)	41,213
Cash flows from non-capital financing activities:						
Operating grants received	300,587	4	-	-	-	300,591
Transfers in (out)	17,898	155	88,447	(1,276)	(105,224)	-
Proceeds from sale of bonds	-	-	-	-	473,792	473,792
Operating grants paid	(285,422)	-	-	-	-	(285,422)
Call premium paid	-	-	-	-	(36)	(36)
Cost of issuance paid	-	-	-	-	(3,602)	(3,602)
Principal payments	-	-	(210,180)	(70,790)	(112,600)	(393,570)
Interest paid	(10)	-	(21,529)	(13,009)	(30,894)	(65,442)
Net cash provided (used) by non-capital financing activities	33,053	159	(143,262)	(85,075)	221,436	26,311
Cash flows from capital and related financing activities:						
Purchases of capital assets	(983)	-	-	-	-	(983)
Net cash used by capital and related financing activities	(983)	-	-	-	-	(983)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	34,940	161,404	37,423	156,115	389,882
Purchases of investments	-	(23,270)	(115,803)	(26,865)	(161,232)	(327,170)
Investment interest received	71	120	5,285	648	1,656	7,780
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	7	54	39	119	219
Net cash provided (used) by investing activities	71	11,797	50,940	11,245	(3,342)	70,711
Net increase in cash and cash equivalents	25,170	9,521	7,202	5,573	89,786	137,252
Cash and cash equivalents, July 1	6,196	11,071	82,854	34,727	96,822	231,670
Cash and cash equivalents, June 30	\$ 31,366	\$ 20,592	\$ 90,056	\$ 40,300	\$ 186,608	\$ 368,922

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (9,561)	\$ 40	\$ 2,785	\$ 4,111	\$ 12,005	\$ 9,380
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	350	-	-	-	-	350
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	232	148	2,235	537	(85)	3,067
(Increase) decrease in mortgage interest receivable	-	-	1,956	456	(2,014)	398
(Increase) in pension asset	(20)	-	-	-	-	(20)
(Increase) in deferred pension outflows	(1,703)	-	-	-	-	(1,703)
(Increase) decrease in mortgage loans receivable	-	(2,041)	79,260	62,946	(171,945)	(31,780)
Decrease in due from federal government	83	-	-	-	-	83
Decrease in interfund receivables	326	-	225	-	-	551
(Decrease) in interfund payables	-	-	-	-	(551)	(551)
Increase (decrease) in accounts payable	1,107	(478)	1,045	758	963	3,395
Increase in accrued payroll / compensated absences	176	-	-	-	-	176
Increase in due to primary government	651	-	-	-	-	651
(Decrease) in arbitrage rebate liability	-	-	(2,984)	-	-	(2,984)
Increase in pension liability	2,223	-	-	-	-	2,223
(Decrease) in deferred pension inflows	(774)	-	-	-	-	(774)
Investment income included as operating revenue	(71)	(104)	(399)	(344)	(825)	(1,743)
Interest expense included as operating expense	10	-	15,401	10,939	30,542	56,892
Issuance cost included as operating expense	-	-	-	-	3,602	3,602
Total adjustments	2,590	(2,475)	96,739	75,292	(140,313)	31,833
Net cash provided (used) by operating activities	\$ (6,971)	\$ (2,435)	\$ 99,524	\$ 79,403	\$ (128,308)	\$ 41,213
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	\$ -	\$ (3)	\$ (834)	\$ (181)	\$ (2,093)	\$ (3,111)
Total noncash investing, capital, and financing activities	\$ -	\$ (3)	\$ (834)	\$ (181)	\$ (2,093)	\$ (3,111)

***UNAUDITED FINANCIAL
INFORMATION***

September 30, 2017

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

	September 30, 2017					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 9/30/2017
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,537	\$ 17,430	\$ 19,052	\$ 31,588	\$ 140,221	\$ 209,828
Investments	-	2,014	4,660	6,723	62,385	75,782
Receivables:						
Accounts	-	137	-	-	-	137
Interest	-	29	2,471	2,393	6,781	11,674
First mortgage loans	156	2,132	17,051	8,745	33,960	62,044
Due from federal government	30,782	-	-	-	-	30,782
Due from other funds	1,352	-	-	-	1,293	2,645
Prepaid Expenses	1	-	-	-	-	1
Total current assets	33,828	21,742	43,234	49,449	244,640	392,893
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	22,462	-	27,395	1,191	4,591	55,639
Investments	-	-	66,286	19,941	42,300	128,527
Investment interest receivable	-	-	442	115	230	787
Investments	-	1,788	-	-	47,892	49,680
First mortgage loans receivable	539	48,737	313,836	293,990	1,245,008	1,902,110
Second mortgage loans receivable	-	-	32,134	-	-	32,134
Allowance for forgivable second mortgage	-	-	(9,984)	-	-	(9,984)
Unearned Service Release Premium	112	-	-	-	-	112
Advance to local government	3,129	-	-	-	-	3,129
Net pension asset	33	-	-	-	-	33
Capital assets:						
Furniture and equipment	3,565	-	-	-	-	3,565
Less accumulated depreciation	(1,756)	-	-	-	-	(1,756)
Total noncurrent assets	28,084	50,525	430,109	315,237	1,340,021	2,163,976
Total assets	61,912	72,267	473,343	364,686	1,584,661	2,556,869
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	235	-	640	875
Deferred outflows related to pensions	3,864	-	-	-	-	3,864
Total deferred outflows of resources	3,864	-	235	-	640	4,739
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 6,551	\$ 2	\$ 1,972	\$ 1,349	\$ 1,484	\$ 11,358
Accrued payroll and related liabilities	167	-	-	-	-	167
Compensated absences	667	-	-	-	-	667
Interest payable	-	-	2,654	2,582	10,413	15,649
Escrow deposits	1,800	-	-	-	-	1,800
Prepayments on mortgage loans	10	-	200	143	777	1,130
Due to federal government	26,329	-	-	-	-	26,329
Due to other funds	-	-	2,645	-	-	2,645
Bonds payable	-	-	23,990	18,360	54,030	96,380
Total current liabilities	35,524	2	31,461	22,434	66,704	156,125
Noncurrent liabilities:						
Bonds payable	-	-	251,003	288,497	1,336,229	1,875,729
Compensated absences	647	-	-	-	-	647
Net pension liability	7,652	-	-	-	-	7,652
Net OPEB obligation	1,661	-	-	-	-	1,661
Escrow deposits	350	120	-	-	3,894	4,364
Arbitrage rebate payable	-	-	1,110	-	-	1,110
Total noncurrent liabilities	10,310	120	252,113	288,497	1,340,123	1,891,163
Total liabilities	45,834	122	283,574	310,931	1,406,827	2,047,288
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	514	-	-	-	-	514
Total deferred inflows of resources	514	-	-	-	-	514
NET POSITION						
Net investment in capital assets	1,809	-	-	-	-	1,809
Restricted for single family bond program:	-	-	190,004	53,755	178,474	422,233
Restricted for grant programs	-	10,000	-	-	-	10,000
Restricted for Homebuyers Revolving Loan	3,153	-	-	-	-	3,153
Restricted for pension asset	33	-	-	-	-	33
Unrestricted	14,433	62,145	-	-	-	76,578
Total net position	\$ 19,428	\$ 72,145	\$ 190,004	\$ 53,755	\$ 178,474	\$ 513,806

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Three Months Ended September 30, 2017

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 9/30/2017
OPERATING REVENUES						
Mortgage interest income	\$ -	\$ -	\$ 4,095	\$ 3,511	\$ 14,320	\$ 21,926
Investment income:						
Interest	-	26	658	170	680	1,534
Net increase (decrease) in the fair value of investments	-	15	(396)	(63)	(199)	(643)
Federal grant administration fees	3,419	-	-	-	-	3,419
Fees and other income	674	-	-	-	815	1,489
Total operating revenues	4,093	41	4,357	3,618	15,616	27,725
OPERATING EXPENSES						
Salaries and benefits	4,921	-	-	-	-	4,921
Contractual services	1,184	-	-	-	-	1,184
Materials and supplies	116	-	-	-	-	116
Rentals and insurance	3	-	-	-	-	3
Other administrative expenses	154	-	-	-	-	154
Other program expenses	112	-	192	38	222	564
Interest expense	-	-	2,545	2,418	9,147	14,110
Mortgage service fees	-	32	191	263	1,109	1,595
Issuance costs	-	-	-	-	191	191
Total operating expenses	6,490	32	2,928	2,719	10,669	22,838
Operating income (loss)	(2,397)	9	1,429	899	4,947	4,887
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	69,085	-	-	-	-	69,085
Federal grants expenses	(69,061)	-	-	-	-	(69,061)
Local grants expenses	(1,071)	-	-	-	-	(1,071)
Total nonoperating revenues (expenses)	(1,047)	-	-	-	-	(1,047)
Income (loss) before transfers	(3,444)	9	1,429	899	4,947	3,840
Transfers (to) other funds	-	(1,005)	(486)	(190)	(2,503)	(4,184)
Transfers from other funds	4,184	-	-	-	-	4,184
Change in net position	740	(996)	943	709	2,444	3,840
Total net position, July 1	18,688	73,141	189,061	53,046	176,030	509,966
Total net position, End of period	\$ 19,428	\$ 72,145	\$ 190,004	\$ 53,755	\$ 178,474	\$ 513,806

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Three Months Ended September 30, 2017

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 9/30/2017
Cash flows from operating activities:						
Receipts from customers	\$ 891	\$ 722	\$ 20,452	\$ 21,413	\$ 56,550	\$ 100,028
Receipts from federal government	3,503	-	-	-	-	3,503
Receipts from other funds	511	-	355	-	-	866
Other miscellaneous receipts	674	-	-	-	815	1,489
Acquisition of mortgage loans	-	(1,469)	(2,259)	-	(102,264)	(105,992)
Payments of Service Release Premiums	(112)	-	-	-	-	(112)
Payments to service mortgages	-	(32)	(191)	(263)	(1,109)	(1,595)
Payments to other funds	-	-	-	-	(866)	(866)
Payments to or for employees	(5,486)	-	-	-	-	(5,486)
Net cash provided (used) by operating activities	(19)	(779)	18,357	21,150	(46,874)	(8,165)
Cash flows from non-capital financing activities:						
Operating grants received	66,433	-	-	-	-	66,433
Transfers in (out)	4,184	(1,005)	(486)	(190)	(2,503)	-
Proceeds from sale of bonds	-	-	-	-	102,679	102,679
Operating grants paid	(77,965)	-	-	-	-	(77,965)
Call premium paid	-	-	(14)	-	-	(14)
Cost of issuance paid	-	-	-	-	(191)	(191)
Principal payments	-	-	(50,950)	(14,670)	(43,670)	(109,290)
Interest paid	-	-	(6,564)	(5,458)	(18,030)	(30,052)
Net cash provided (used) by non-capital financing activities	(7,348)	(1,005)	(58,014)	(20,318)	38,285	(48,400)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	13,572	23,116	4,380	38,112	79,180
Purchases of investments	-	(14,974)	(28,091)	(12,852)	(71,804)	(127,721)
Investment interest received	-	24	985	100	413	1,522
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	-	38	19	72	129
Net cash (used) by investing activities	-	(1,378)	(3,952)	(8,353)	(33,207)	(46,890)
Net (decrease) in cash and cash equivalents	(7,367)	(3,162)	(43,609)	(7,521)	(41,796)	(103,455)
Cash and cash equivalents, July 1	31,366	20,592	90,056	40,300	186,608	368,922
Cash and cash equivalents, End of period	\$ 23,999	\$ 17,430	\$ 46,447	\$ 32,779	\$ 144,812	\$ 265,467

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Three Months Ended September 30, 2017

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 9/30/2017
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (2,397)	\$ 9	\$ 1,429	\$ 899	\$ 4,947	\$ 4,887
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Changes in assets and liabilities:						
Decrease in accounts receivable	-	74	-	-	782	856
(Increase) decrease in mortgage interest receivable	-	(1)	90	169	(289)	(31)
(Increase) decrease in mortgage loans receivable	-	(813)	13,484	17,233	(62,424)	(32,520)
Decrease in due from federal government	84	-	-	-	-	84
Decrease in interfund receivables	511	-	355	-	-	866
(Decrease) in interfund payables	-	-	-	-	(866)	(866)
Increase (decrease) in accounts payable	3,083	-	716	538	2,119	6,456
(Decrease) in unearned service release premium	(112)	-	-	-	-	(112)
(Decrease) in accrued payroll / compensated absences	(465)	-	-	-	-	(465)
(Decrease) in due to primary government	(723)	-	-	-	-	(723)
Investment income included as operating revenue	-	(48)	(262)	(107)	(481)	(898)
Interest expense included as operating expense	-	-	2,545	2,418	9,147	14,110
Issuance cost included as operating expense	-	-	-	-	191	191
Total adjustments	<u>2,378</u>	<u>(788)</u>	<u>16,928</u>	<u>20,251</u>	<u>(51,821)</u>	<u>(13,052)</u>
Net cash provided (used) by operating activities	\$ <u>(19)</u>	\$ <u>(779)</u>	\$ <u>18,357</u>	\$ <u>21,150</u>	\$ <u>(46,874)</u>	\$ <u>(8,165)</u>
Noncash investing, capital, and financing activities:						
Increase (decrease) in fair value of investments	-	15	(374)	(73)	(440)	(872)
Total noncash investing, capital, and financing activities	\$ -	\$ 15	\$ (374)	\$ (73)	\$ (440)	\$ (872)

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS AND SERVICERS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the "Working Agreements"). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA's security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA's rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent's privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the "O. A. Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA currently has an agreement with U.S. Bank (the "Servicer") to service Program Loans (the "Servicing Agreement"). U.S. Bank services approximately 90% of THDA's entire portfolio of mortgage loans made or purchased with bond proceeds. The Servicing Agreement provides for the collection and remittance of Program Loan payments to THDA or a designated depository. Prior to remittance, the Servicer deducts a servicing fee, late charges and amounts to be held in escrow accounts for real property taxes, mortgage and hazard insurance premiums, and assessments. The servicing fee under the current Servicing Agreement is 3/8% annually. The Servicer is required to notify THDA in the event of any default on a Program Loan, and the Servicer may conduct foreclosure proceedings with the consent and at the expense of THDA. The Servicer is required to repurchase any Program Loan from THDA at any time THDA

suffers or is threatened with a material loss by reason of the Servicer's failure to perform its obligations under the Servicing Agreement. THDA may also terminate a Servicing Agreement for inadequate performance by the Servicer.

THDA began self-servicing the mortgage loan portfolio previously serviced by Pinnacle Bank through a division of THDA called Volunteer Mortgage Loan Servicing ("VMLS"). VMLS began servicing the former Pinnacle Bank portion of the THDA mortgage loan portfolio as of November 1, 2016. THDA began servicing new production loans from its largest Originating Agent as of October 1, 2017. THDA is providing notice to all Originating Agents about delivering new THDA loans to VMLS for servicing in accordance with a schedule that THDA anticipates will result in all new THDA loans being serviced by THDA on or about June 1, 2018. THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

Guide for Servicers

THDA provides each Servicer with a Guide for Servicers (the "Servicer Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax requirements. The Servicer Guide includes substantive servicing requirements, incorporates the limitation on assumption of mortgages contained in the federal tax code, and specifies the procedures to be followed by the Servicer to comply with THDA requirements and the federal tax code. The Servicer Guide also includes a list of the documents that must be maintained by the Servicer, copies of all THDA's servicing and loan assumption forms, together with instructions for their completion and a schedule for the submission of the required forms and reports to THDA.

THDA requires monthly reports from Servicers. Each Servicer's performance is monitored and its servicing record is subject to examination by THDA's staff. Examinations are performed monthly from documentation received from the Servicer.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the "General Residential Finance Program Bond Resolution."

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

"Account" means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

"Accountant" means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

"Act" means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

"Appreciation Bond" means any Bond whose Issue Amount is less than 97.5% of the Maturity Amount.

"Authorized Officer" means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

"Bond" or "Bonds" means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

"Bond Counsel's Opinion" means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

"Bondholder" or "holder" or words of similar import, when used with reference to a Bond means the registered owner of any Outstanding Bond.

"Bond Reserve Fund" means the Bond Reserve Fund established pursuant to Section 5.1.

"Bond Reserve Fund Requirement" means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

"Code" means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

- (1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;
- (2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

"Program Security" means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

"Projected Cash Flow Statement" means a Certificate delivered pursuant to the provisions of Section 7.11.

"Rating Agency" means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody's and S&P.

"Redemption Account" means the Redemption Account which is established and created in the Revenue Fund pursuant to this Resolution.

"Redemption Date" means the date upon which Bonds are to be called for redemption pursuant to this Resolution.

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

"Refunding Bond" means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

"Resolution" means this Resolution and any amendments or supplements made in accordance with its terms.

"Revenue Fund" means the Revenue Fund established pursuant to Section 5.1.

"Revenues" means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

"S&P" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, and any successor.

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

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

"State" means the State of Tennessee.

"Supplemental Resolution" means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

"THDA" means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

"Trustee" means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI
REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

- (1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or
- (2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or
- (3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

- (1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;
- (2) by bringing suit upon the Bonds;
- (3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of or Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$823,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

Amount

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Outstanding as of December 31, 2017 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A	December 23, 2009	\$ 100,000,000	\$ --	\$ 9,440,000	3.96%
2010-A/ 2009-B, Subseries B-1	June 17, 2010	74,710,000	85,290,000	14,405,000	3.85
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	44,470,000	3.15
2011-A/ 2009-B, Subseries B-3	April 14, 2011	40,000,000	60,000,000	13,480,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	50,155,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,850,000	34,710,000	46,895,000	3.01
Issue 2015-A	May 28, 2015	<u>163,850,000</u>	--	<u>107,575,000</u>	2.78
TOTAL		<u>\$ 523,850,000</u>	<u>\$ 300,000,000</u>	<u>\$ 286,420,000</u>	

(1) Bond yield.

As of December 31, 2017 (unaudited), 3,179 mortgage loans in the approximate aggregate principal amount of \$268,260,535 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$827,690,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of December 31, 2017 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2008-1	May 29, 2008	\$ 60,000,000	\$ 11,525,000	4.93
2009-1	June 11, 2009	50,000,000	14,580,000	4.39
2009-2	September 30, 2009	75,000,000	18,905,000	4.06
2010-1	October 13, 2010	120,700,000	38,075,000	3.57
2011-1	December 1, 2011	141,255,000	59,530,000	3.80
2012-1	July 19, 2012	133,110,000	65,355,000	3.26
2012-2	November 15, 2012	97,625,000	49,985,000	2.92
TOTAL		<u>\$ 677,690,000</u>	<u>\$ 257,955,000</u>	

(1) Bond yield.

As of December 31, 2017 (unaudited), 5,426 mortgage loans in the approximate aggregate principal amount of \$282,056,459 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets relating to bond proceeds, including mortgage loans, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution. Certain assets and investments not related to bond proceeds remain in the General Fund of the 1974 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. THDA established eligibility requirements for the mortgage credit certificate program and loans assisted with a mortgage credit certificate may not be funded with proceeds of qualified mortgage bonds such as the Issue 2018-1 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets, other than its mortgage assets (the “non-mortgage assets”). These non-mortgage assets are invested only in investments authorized by the Act, THDA’s investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA’s investment of THDA non-mortgage assets to the Executive Director of THDA.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bonds certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds certificates will be printed and delivered.

RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES

General

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2018-1 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

THDA's current income limits range from \$57,480 to \$96,180 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

U.S. Bank currently services approximately 90% of THDA's mortgage loan portfolio. THDA began self-servicing the mortgage loan portfolio previously serviced by Pinnacle Bank through a division of THDA called Volunteer Mortgage Loan Servicing ("VMLS"). VMLS began servicing the former Pinnacle Bank portion of the THDA mortgage loan portfolio as of November 1, 2016. THDA is in the process of having servicing for new production loans delivered by Originating Agents to VMLS. THDA anticipates that all Originating Agents will be delivering servicing for new production loans to VMLS on or before June 1, 2018. THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule. As of December 31, 2017, VMLS is servicing less than 10.0% of all THDA mortgage loans.

THDA requires regular reports from Servicers updating the total number of Program Loans serviced and providing certain information for each Program Loan including, without limitation, delinquency and foreclosure data. THDA's agreements with Servicers (the "Servicing Agreements") provide for the collection and remittance of Program Loan payments to THDA or a designated depository. The Servicers' records relating to serviced Program Loans are subject to examination by THDA's Single Family and Internal Audit Divisions.

THDA provides each Servicer with a Guide for Servicers which sets forth complete requirements and procedures for servicing Program Loans. THDA may terminate any Servicing Agreement when there is inadequate performance by the Servicer. THDA may also require that a Servicer purchase any Program Loan from THDA at any time THDA suffers or is threatened with a material loss by reason of a Servicer's failure to perform its obligations with respect to the Program Loans under the Servicing Agreement. For information about Servicing Agreements and substantive requirements relating to servicing Program Loans, see Appendix C.

March 29, 2018

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$99,900,000 Issue 2018-1 (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$99,900,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2018-1 (Non-AMT) (the "Issue 2018-1 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2018-1 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on January 23, 2018, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on February 27, 2018 (together, the "Supplemental Resolution," and, together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2018-1 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2018-1 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2018-1 Bonds are being issued to refund certain outstanding obligations of THDA and to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2018-1 Bonds in order that interest on the Issue 2018-1 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2018-1 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.
2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.
3. The Issue 2018-1 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2018-1 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2018-1 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.

6. The Issue 2018-1 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.

7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2018-1 Bonds is excluded from gross income of the owners thereof for federal income tax purposes; (ii) interest on the Issue 2018-1 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on the Issue 2018-1 Bonds will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code. No federal alternative minimum tax applies to corporations for tax years beginning after December 31, 2017.

8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2018-1 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2018-1 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2018-1 Bonds may have to take interest on such Issue 2018-1 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2018-1 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2018-1 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2018-1 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES**Delinquencies and Foreclosures as of September 30, 2017*

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.93%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	223	\$ 22,374,473	2.00%	1.38% ⁽⁴⁾
VA Guaranteed	2	157,772	0.76	0.80
Privately Insured	13	984,104	1.38	0.71
USDA/RD Guaranteed.....	17	1,150,950	2.21	⁽⁵⁾
Uninsured.....	7	473,226	1.60	⁽⁵⁾
TOTAL	<u>262</u>	<u>\$ 25,140,524⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.24%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	560	\$ 49,491,381	5.02%	1.92% ⁽⁴⁾
VA Guaranteed	20	1,301,089	7.60	1.31
Privately Insured	71	4,883,975	7.55	0.16
USDA/RD Guaranteed.....	46	3,324,364	5.99	⁽⁵⁾
Uninsured.....	13	629,014	2.97	⁽⁵⁾
TOTAL	<u>710</u>	<u>\$ 59,629,823⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bond issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding loans financed pursuant to the 1974 General Resolution that were transferred to the General Resolution as of June 30, 2014.

The overall rate of Program Loans in foreclosure was 0.53%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2017 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2017, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	62	\$ 6,276,684	0.56%	0.43% ⁽⁴⁾
VA Guaranteed	2	273,802	0.76	0.80
Privately Insured	5	517,833	0.53	0.41
USDA/RD Guaranteed.....	3	240,117	0.39	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL.....	72	\$ 7,308,436 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of June 30, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.43%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	152	\$ 14,659,035	1.43%	0.91% ⁽⁴⁾
VA Guaranteed	1	111,713	0.38	0.72
Privately Insured	11	888,734	1.11	0.65
USDA/RD Guaranteed.....	18	1,232,049	2.34	(5)
Uninsured.....	5	295,682	1.17	(5)
TOTAL.....	187	\$ 17,187,214 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.00%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	515	\$ 44,653,653	4.84%	1.82% ⁽⁴⁾
VA Guaranteed	19	1,319,090	7.31	1.15
Privately Insured	67	4,729,147	6.76	1.09
USDA/RD Guaranteed.....	39	2,900,018	5.07	(5)
Uninsured.....	14	783,463	3.29	(5)
TOTAL	654	\$ 54,385,371 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.58%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of June 30, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2017, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	65	\$ 6,790,161	0.61%	0.58% ⁽⁴⁾
VA Guaranteed	2	273,802	0.77	0.84
Privately Insured	5	507,538	0.50	0.40
USDA/RD Guaranteed.....	4	287,204	0.52	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	76	\$ 7,858,705 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of March 31, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.09%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	114	\$ 10,187,275	1.14%	0.98% ⁽⁴⁾
VA Guaranteed	1	17,443	0.40	0.59
Privately Insured	7	613,914	0.89	0.63
USDA/RD Guaranteed.....	8	587,777	1.09	(5)
Uninsured.....	2	126,407	0.51	(5)
TOTAL.....	132	\$ 11,532,816⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.04%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	492	\$ 42,478,597	4.93%	1.90% ⁽⁴⁾
VA Guaranteed	19	1,183,231	7.54	1.21
Privately Insured	49	3,494,152	6.23	1.22
USDA/RD Guaranteed.....	38	2,671,286	5.18	(5)
Uninsured.....	14	798,014	3.54	(5)
TOTAL.....	612	\$ 50,625,281⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.74%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2017, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	77	\$ 7,804,398	0.77%	0.59% ⁽⁴⁾
VA Guaranteed	3	376,556	1.19	0.90
Privately Insured	5	483,014	0.64	0.46
USDA/RD Guaranteed.....	5	376,443	0.68	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>90</u>	<u>\$ 9,040,411</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of December 31, 2016

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.92%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2016, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	182	\$16,994,592	1.92%	1.43% ⁽⁴⁾
VA Guaranteed	8	588,835	3.19	0.81
Privately Insured	14	1,080,351	1.72	0.50
USDA/RD Guaranteed.....	17	1,222,844	2.35	(5)
Uninsured.....	<u>3</u>	<u>146,440</u>	0.75	(5)
TOTAL	<u>224</u>	<u>20,033,063</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.25%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2016 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2016, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	489	\$41,481,830	5.16%	2.31% ⁽⁴⁾
VA Guaranteed	14	1,069,711	5.58	1.49
Privately Insured	46	3,377,391	5.67	0.94
USDA/RD Guaranteed.....	48	3,680,889	6.65	(5)
Uninsured.....	<u>19</u>	<u>1,152,305</u>	4.75	(5)
TOTAL	<u>606</u>	<u>\$50,762,126</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.87%, based on a total of 11,663 Program Loans as of December 31, 2016 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of December 31, 2016 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2016, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2016

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	82	\$ 8,206,900	0.87%	0.80% ⁽⁴⁾
VA Guaranteed	5	575,617	1.99	0.94
Privately Insured	8	764,257	0.99	0.36
USDA/RD Guaranteed.....	4	306,630	0.55	(5)
Uninsured.....	<u>2</u>	<u>150,346</u>	0.50	(5)
TOTAL	<u>101</u>	<u>\$10,003,751</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2016.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these



Tennessee Housing
Development Agency

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2018-2 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that interest on the Issue 2018-2 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"). In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2018-2 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2018-2 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds \$160,000,000 Issue 2018-2 (Non-AMT)

Dated: Date of Delivery

Due: As shown on inside front cover

The Issue 2018-2 Bonds (the "Issue 2018-2 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on January 1, 2019, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about June 12, 2018.

RBC CAPITAL MARKETS

CITIGROUP

RAYMOND JAMES

J.P. MORGAN

WELLS FARGO SECURITIES

WILEY BROS.—AINTREE CAPITAL, LLC

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$160,000,000 Issue 2018-2 (Non-AMT)

\$49,000,000 Serial Bonds						
Year	Principal Amount Due January 1	Interest Rate	CUSIP Number⁽¹⁾	Principal Amount Due July 1	Interest Rate	CUSIP Number⁽¹⁾
2019	\$ 480,000	1.75%	880461TN8	\$ 1,645,000	1.85 %	880461TP3
2020	1,660,000	1.95	880461TQ1	1,680,000	2.05	880461TR9
2021	1,695,000	2.20	880461TS7	1,715,000	2.25	880461TT5
2022	1,740,000	2.30	880461TU2	1,760,000	2.35	880461TV0
2023	1,785,000	2.40	880461TW8	1,805,000	2.45	880461TX6
2024	1,830,000	2.55	880461TY4	1,860,000	2.60	880461TZ1
2025	1,885,000	2.65	880461UA4	1,915,000	2.70	880461UB2
2026	1,940,000	2.80	880461UC0	1,975,000	2.85	880461UD8
2027	2,005,000	2.95	880461UE6	2,035,000	3.00	880461UF3
2028	2,070,000	3.00	880461UG1	2,105,000	3.05	880461UH9
2029	2,140,000	3.10	880461UJ5	2,175,000	3.15	880461UK2
2030	2,215,000	3.25	880461UL0	2,255,000	3.30	880461UM8
2031	2,295,000	3.35	880461UN6	2,335,000	3.40	880461UP1

\$111,000,000 Term Bonds			
Maturity Date	Principal Amount Due	Interest Rate	CUSIP Number⁽¹⁾
July 1, 2033	\$ 9,795,000	3.50 %	880461UQ9
July 1, 2038	28,185,000	3.70	880461UR7
July 1, 2042	24,420,000	3.85	880461US5
January 1, 2049 (PAC)	48,600,000	4.00	880461UT3

PRICE OF ISSUE 2018-2 BONDS DUE JANUARY 1, 2049 (PAC): 105.911%

PRICE OF ALL REMAINING ISSUE 2018-2 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds
\$160,000,000 Issue 2018-2 (Non-AMT)

INTRODUCTION

This Official Statement (the “Official Statement”) provides certain information in connection with the issuance by the Tennessee Housing Development Agency (“THDA”) of its Residential Finance Program Bonds, Issue 2018-2 in the aggregate principal amount of \$160,000,000 (the “Issue 2018-2 Bonds” or the “Offered Bonds”).

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the “Act”). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the “General Resolution” or the “2013 General Resolution”) and by a Resolution adopted by THDA on March 27, 2018, as amended and supplemented by the Bond Finance Committee of THDA (the “Bond Finance Committee”) on May 8, 2018 (the “Issue 2018-2 Supplemental Resolution”). The General Resolution and the Issue 2018-2 Supplemental Resolution are herein collectively referred to as the “Resolution.”

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2018-2 Bonds on March 26, 2018.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of March 31, 2018 (unaudited), Bonds in the aggregate principal amount of \$1,480,585,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$272,420,000 were outstanding under THDA’s Housing Finance Program Resolution (the “2009 General Resolution”), and bonds in the aggregate principal amount of \$232,460,000 were outstanding under THDA’s Homeownership Program Resolution (the “1985 General Resolution”). No bonds are outstanding under THDA’s Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”). For more information see “Other Financings—Housing Bond Resolution (Mortgage Finance Program)” in Appendix E.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption “SECURITY AND SOURCES OF PAYMENT OF BONDS”. All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the “Bonds”. The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the “Public Pledge Act”). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee’s codification of Article 9 of the Uniform Commercial Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects that the proceeds of the Issue 2018-2 Bonds will be used to: (i) refund all Issue 2009-1 Bonds issued and outstanding under the 1985 General Resolution (the "Prior Bonds"), (ii) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (iii) pay capitalized interest, if any; (iv) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (v) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix G.

As a result of the refunding of the Prior Bonds, mortgage loans previously allocable to the Prior Bonds in an expected aggregate outstanding amount of approximately \$14,393,354 will be allocated to the Offered Bonds (the "Transferred Program Loans"). See "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS" for information about the Transferred Program Loans. In addition, other investments allocable to the Prior Bonds in the projected amount of approximately \$297,489 will be transferred to accounts established for the Offered Bonds under the General Resolution (the "Transferred Investments"). It is anticipated that the Prior Bonds will be redeemed prior to maturity on July 1, 2018, at the applicable redemption prices thereof plus accrued interest. No assurance can be provided that the Prior Bonds will actually be refunded.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution, including the Transferred Program Loans and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" shall include the Transferred Program Loans as well as new Program Loans (including participations therein) financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2018-2 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA does not intend to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance. While the Issue 2018-2 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of March 31, 2018 (unaudited), 14,705 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$1,450,440,372. Based on the outstanding principal balance of Program Loans as of March 31, 2018 (unaudited), approximately 86.89% were FHA insured, approximately 1.84% were VA

guaranteed, approximately 5.03% were insured by private mortgage insurance companies, approximately 4.17% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.08% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See "RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data" and Appendix B under the heading "Private Mortgage Insurance Programs".

U.S. Bank National Association (the "Trustee") is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2018-2 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2018-2 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D "2013 GENERAL RESOLUTION". Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, ("DTC"), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F "BOOK-ENTRY-ONLY SYSTEM" for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2018-2 Bonds and is payable on January 1, 2019, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2018-2 Bonds maturing on July 1, 2033, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2032, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2018-2		
Term Bonds Due July 1, 2033		
<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2032	\$ 2,380,000	\$ 2,425,000
2033	2,470,000	2,520,000 (maturity)

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The Issue 2018-2 Bonds maturing on July 1, 2038, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2034, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2018-2
Term Bonds Due July 1, 2038**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2034	\$ 2,570,000	\$ 2,620,000
2035	2,675,000	2,730,000
2036	2,785,000	2,840,000
2037	2,900,000	2,960,000
2038	3,020,000	3,085,000 (maturity)

The Issue 2018-2 Bonds maturing on July 1, 2042, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2039, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2018-2
Term Bonds Due July 1, 2042**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2039	\$ 3,145,000	\$ 3,215,000
2040	3,005,000	2,810,000
2041	2,870,000	2,930,000
2042	3,190,000	3,255,000 (maturity)

The Issue 2018-2 Bonds maturing on January 1, 2049 (the "PAC Bonds"), are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2043, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2018-2
PAC Term Bonds Due January 1, 2049**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2043	\$ 3,335,000	\$ 3,405,000
2044	3,470,000	3,540,000
2045	3,615,000	3,685,000
2046	3,760,000	3,835,000
2047	3,910,000	3,990,000
2048	4,070,000	4,150,000
2049	3,835,000 (maturity)	

Optional Redemption. The Issue 2018-2 Bonds maturing on and after January 1, 2028, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after July 1, 2027, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2018-2 Principal Payments (as defined below). Any Excess 2018-2 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing January 1, 2019; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2018-2 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds (including the Transferred Program Loans) are equal to or less than 400% PSA (as defined below under "ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds"), as determined by THDA, then available Excess 2018-2 Principal Payments shall first be applied to redeem PAC Bonds up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds and, subject to the application of the 10-year rule as described below under the heading "*–Mandatory Redemption – 10 Year Rule,*" the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds (including the Transferred Program Loans) are in excess of 400% PSA, as determined by THDA, then available Excess 2018-2 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds shall first be applied to redeem PAC Bonds and, subject to the application of the 10-year rule as described below under the heading "*–Mandatory Redemption – 10 Year Rule,*" the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an "Excess Principal PAC Bond Redemption"); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2018-2 Principal Payments which is in excess of 400% PSA, and (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds' proportionate amount of all Issue 2018-2 Bonds then Outstanding.

"Excess 2018-2 Principal Payments" means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds (including the Transferred Program Loans) to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

"Planned Amortization Amount" means the dollar amount applicable to the PAC Bonds for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the PAC Bonds assumed to be redeemed from Excess 2018-2 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds (including the Transferred Program Loans). See "ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds" for a description of PSA prepayment rates.

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The Planned Amortization Amounts for the PAC Bonds (which assume the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination, the allocation of the Transferred Program Loans to the Offered Bonds in an aggregate principal amount of approximately \$14,393,354 with an approximate weighted average maturity of 254 months, and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds (including the Transferred Program Loans) at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedules

<u>Date</u>	<u>PAC Bonds Planned Amortization Amount</u>
January 1, 2019	\$ 680,000
July 1, 2019	1,735,000
January 1, 2020	3,630,000
July 1, 2020	6,315,000
January 1, 2021	9,730,000
July 1, 2021	13,640,000
January 1, 2022	17,450,000
July 1, 2022	21,065,000
January 1, 2023	24,480,000
July 1, 2023	27,705,000
January 1, 2024	30,745,000
July 1, 2024	33,595,000
January 1, 2025	36,270,000
July 1, 2025	38,765,000
January 1, 2026	41,090,000
July 1, 2026	43,245,000
January 1, 2027	45,230,000
July 1, 2027	47,060,000
January 1, 2028	48,600,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the PAC Bonds are redeemed from amounts on deposit in the Issue 2018-2 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds.”

Special Optional Redemption of the Offered Bonds, including Cross Calls The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading “DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds”; (ii) except as otherwise described under the headings “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and “– Mandatory Redemption – 10 Year Rule”, repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, “Code”), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and (b) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bonds to exceed the Planned Amortization Amount shown above in the PAC Bonds Amortization Schedule. The

Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph. See “ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments” and “ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices”.

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof financed with proceeds of the Offered Bonds (directly, or through a series of refundings) shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the related Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedule only if there are no other Offered Bonds outstanding.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans (or portions thereof) financed with proceeds of the Offered Bonds in accordance with the following approximate 10 year rule percentages to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Commencement Date</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
June 12, 2018	0.00%
June 11, 2019	8.92%
June 12, 2028	100.00%

THDA will redeem the Offered Bonds in accordance with this schedule to the extent required to comply with the Code. THDA reserves the right to modify this schedule at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory redemption on April 1, 2019, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2018-2 Bonds Subaccount of the Loan Fund on March 1, 2019, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2018-2 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on December 1, 2021, to the extent any amounts remain on deposit in the Issue 2018-2 Bonds Subaccount of the Loan Fund on November 1, 2021.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding.

Selection By Lot

If less than all of the Issue 2018-2 Bonds of like maturity are to be redeemed, the particular Issue 2018-2 Bonds of such maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2018-2 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 160,000,000.00
Premium on PAC Bonds	2,872,746.00
Transferred Program Loans	14,393,353.88
Transferred Investments	297,489.09
THDA Contribution	900,000.00
TOTAL SOURCES	\$ 178,463,588.97

USES

Deposit to Loan Fund ⁽¹⁾	\$ 161,318,353.88
Redemption of Prior Bonds	13,075,000.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,000,000.00
Deposit to Bond Reserve Fund	1,817,237.65
Costs of Issuance	282,800.00
Underwriters' Fee	970,197.44
TOTAL SOURCES	\$ 178,463,588.97

(1) Includes \$146,925,000 in proceeds from Issue 2018-2 plus approximately \$14,393,354 in Transferred Program Loans.

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the

requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumptions that (i) Transferred Program Loans in the aggregate principal amount of approximately \$14,393,354, with a weighted average maturity of approximately 254 months and a weighted average interest rate of approximately 5.52%, will be allocated to the Offered Bonds and (ii) THDA originates approximately \$146,925,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 4.61%. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2018-2 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA, including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" for descriptions of the various Program Loan products and Appendix G "RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES" for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2018-2 Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 4.61% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2018-2 Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2018-2 Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on April 5, 2018. As of April 27, 2018, THDA has committed a total principal amount of approximately \$28,323,500 of Program Loans, all of which are Great Choice Program Loans and Homeownership for the Brave Program Loans that will be allocated to the Offered Bonds. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans". Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

In recent years a number of financial institutions and related entities have announced large losses as a result of their mortgage activities and the increasing number of defaults and foreclosures on such mortgages. The United States Congress has passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and may pass additional legislation impacting the origination and servicing of mortgage loans. Likewise, the Tennessee General Assembly may enact legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA's single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA's activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA's single-family loans could adversely affect the THDA's ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans (including Transferred Program Loans) will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” “- Special Optional Redemption of the Offered Bonds, including Cross Calls” and “- Mandatory Redemption – 10-Year Rule”.

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds.”

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA's general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA's current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA's determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D “2013 GENERAL RESOLUTION” for a description of Program Expenses. THDA expects to use funds on deposit in the Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters' fees, initial Trustee's fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will

not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see “THDA – THDA Funds”. THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum; and (iii) funds on deposit in the Issue 2018-2 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term “weighted average life” refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association (“PSA”)) prepayment standard or model (commonly referred to as the “PSA Prepayment Model”).

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, “0% PSA” assumes no prepayments of principal on the Program Loans. “25% PSA” assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. “50% PSA” assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. “75% PSA” assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. “100% PSA” assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. “200% PSA” assumes the principal of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. “300% PSA” assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “400% PSA” assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “500% PSA” assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors’ housing needs, job transfers, unemployment and mortgagors’ net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage

loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under “Changes in Federal or State Law” above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds”, and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2018-2 Bond Subaccount of the Loan Fund is applied to finance Program Loans, (ii) approximately \$14,393,354 of Transferred Program Loans with an approximate weighted average maturity of 254 months and an approximate weighted average interest rate of 5.52% will be allocated to the Offered Bonds, (iii) Excess 2018-2 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iv) the PAC Bonds will be redeemed only in the Planned Amortization Amounts as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds” and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate. For certain information regarding Transferred Program Loans see “DESCRIPTION OF TRANSFERRED PROGRAM LOANS” herein.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>PAC Bond Average Life (in years)</u>
0%	26.7
25	20.1
50	12.9
75	7.2
100	5.0
200	5.0
300	5.0
400	5.0
500	4.6

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RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

THDA has issued \$1,848,905,000 total original principal amount of bonds under the General Resolution, of which \$1,480,585,000 (unaudited) were outstanding as of March 31, 2018, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of March 31, 2018 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$ 102,275,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	70,455,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	92,950,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	109,950,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	121,885,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	146,695,000	3.25
Issue 2016-1	May 18, 2016	125,000,000	112,075,000	2.68
Issue 2016-2	October 18, 2016	125,000,000	115,575,000	2.68
Issue 2016-3	November 17, 2016	62,000,000	46,700,000	2.97
Issue 2017-1	March 30, 2017	100,000,000	95,425,000	3.15
Issue 2017-2	June 27, 2017	175,000,000	167,195,000	2.94
Issue 2017-3	September 28, 2017	99,900,000	99,605,000	3.03
Issue 2017-4	December 19, 2017	99,900,000	99,900,000	2.90
Issue 2018-1	March 29, 2018	99,900,000	99,900,000	3.33
TOTAL		\$ 1,848,905,000	\$ 1,480,585,000	

(1) Bond yield.

Origination Experience

THDA's experience from May 30, 2013, to March 31, 2018 (unaudited), regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

<u>Issue of Bonds</u>	<u>Lendable Proceeds⁽²⁾</u>	<u>Program Loans Financed⁽³⁾ as of March 31, 2018</u>		<u>Weighted Average Interest Rate⁽⁴⁾</u>
		<u>Amount</u>	<u>%</u>	
Issue 2013-1	\$ 135,268,395	\$ 135,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	92,340,000	92,340,000	100.00	3.98
Issue 2016-2	91,685,000	91,685,000	100.00	3.87
Issue 2017-1	102,200,000	102,200,000	100.00	4.15
Issue 2017-2	128,090,000	128,090,000	100.00	4.61
Issue 2017-3	90,500,000	90,500,000	100.00	4.62
Issue 2017-4	75,660,000	75,660,000	100.00	4.40
Issue 2018-1	102,600,000	54,882,944	53.49	4.29
TOTAL	\$ 1,394,143,875	\$ 1,346,426,660		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included. All lendable proceeds with respect to the Issue 2018-1 Bonds were committed as of April 5, 2018.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on April 5, 2018, and as of April 27, 2018, THDA has committed a total principal amount of approximately \$28,323,500 of Program Loans that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. The THDA Household Income Limits range from \$57,480 to \$96,180 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2018-2 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance. While the Issue 2018-2 Supplemental Resolution provides that Program Loans, or participations therein, to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date, including the Transferred Program Loans, were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. Transferred Program Loans financed prior to September 30, 2013, are Great Rate, Great Advantage, Great Start or Homeownership for the Brave Program Loans. On and after October 1, 2013, the THDA primary loan program has included Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. Since October 1, 2013, THDA has provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below. As of March 1, 2017, THDA began providing additional downpayment and closing cost assistance through its Hardest Hit Fund Down Payment Assistance program as described below.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 4.625%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans. From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans in a principal amount equal to 4% of the purchase price of the property purchased. From October 1, 2014, to September 30, 2016, Great Choice Plus Loans were 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, each Great Choice Plus loan will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

Since October 3, 2016, Great Choice Plus Loans are thirty year 0% interest rate second lien loans in a principal amount up to 5% of the purchase price of the property purchased. No monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan, provided, however, that the full original principal amount will be forgiven at the end of the thirty year term.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA. THDA does not expect that Great Choice Plus loans will be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

Hardest Hit Fund Down Payment Assistance

In March 2017, THDA began providing \$15,000 in downpayment assistance from the fifth round of federal Hardest Hit Fund funding ("HHF-DPA") to eligible borrowers who qualify for THDA Great Choice loans and who are purchasing existing homes in one of fifty-five zip codes in thirty Tennessee counties. HHF-DPA is secured by a second deed of trust for a ten year term. HHF-DPA does not bear interest, and there are no monthly payments, but it is due on sale. HHF-DPA is forgiven at 20% per year in years six through ten. A THDA approved Homebuyer Education course is also required.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans are serviced by the Federation of Appalachian Housing Enterprises, Inc., as of January 1, 2015. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. As of December 1, 2016, the maximum loan amount was increased to \$123,750 for Maury, Williamson, Davidson, Rutherford, Wilson and Sumner Counties. An interest rate

equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable.

As of March 31, 2018 (unaudited), 114 New Start Program Loans, with an aggregate principal balance of approximately \$5,366,583, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction. Eligible borrowers will also be eligible for Great Choice Plus loans.

As of March 31, 2018 (unaudited), 223 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$25,092,668, were outstanding under the General Resolution. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became transferred program loans allocable to the Issue 2013-1 Bonds under the General Resolution.

As of March 31, 2018 (unaudited), 164 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$9,119,299, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers prior to October 1, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds. THDA also provided downpayment and closing cost assistance in the form of a grant in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made.

As of March 31, 2018 (unaudited), 2,777 Great Rate, 135 Great Advantage, and 1,700 Great Start Program Loans, with an aggregate principal balance of approximately \$370,712,946, were outstanding under the General Resolution.

Although Transferred Program Loans include Great Rate or Great Start Program Loans, THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of March 31, 2018 (unaudited), 14,705 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$1,450,440,372 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 309.88 months and an approximate weighted average interest rate of 4.51%.

Tables under this heading, "Residential Finance Program Portfolio Data", do not include data about Transferred Program Loans. For more information about Transferred Program Loans see "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS".

Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of March 31, 2018 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured	12,224	\$ 1,260,256,369	83.13%	86.89%
VA Guaranteed	282	26,676,664	1.92	1.84
Privately Insured	899	72,903,376	6.11	5.03
USDA/RD Guaranteed	827	60,487,950	5.62	4.17
Uninsured ⁽²⁾	473	30,116,013	3.22	2.08
TOTAL	14,705	\$ 1,450,440,372⁽⁴⁾	100.00%⁽⁴⁾	100.00%⁽⁴⁾

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution, either upon their direct transfer to the General Resolution or upon the refunding of other THDA obligations, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of March 31, 2018 (unaudited), 899⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$72,903,376 were outstanding under the General Resolution. As of March 31, 2018 (unaudited), THDA had the following information regarding the private mortgage insurers for 830 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance⁽³⁾</u>	<u>Percent of Total Number of Program Loans⁽³⁾</u>	<u>Percent of Total Outstanding Balance of Program Loans⁽³⁾</u>
Commonwealth/CMAC	3	\$ 74,635	0.02%	0.01%
Genworth Mortgage Insurance Corp. (GE)	350	29,174,531	2.38	2.01
MGIC	288	23,829,665	1.96	1.64
PMI Mortgage Insurance Co. ⁽²⁾	2	141,701	0.01	0.01
Radian Guaranty Inc.	4	238,120	0.03	0.02
Republic Mortgage Insurance Corporation	49	3,855,576	0.33	0.27
Triad Guaranty Insurance Corporation ⁽²⁾	7	427,638	0.05	0.03
United Guaranty Residential Insurance Co.	127	10,153,854	0.86	0.70
TOTAL	830	\$ 67,895,719⁽⁴⁾	5.64%⁽⁴⁾	4.68%⁽⁴⁾

(1) The private mortgage insurer is not identified with respect to 69 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA began compiling data with respect to individual private mortgage insurance providers.

(2) Certain private mortgage insurance companies are under the oversight of their respective state insurance regulators and may pay claims at rates less than \$1.00 per \$1.00 of coverage.

(3) Rounded figures.

(4) Rounded total.

Program Loan Interest Rates

The following table summarizes, as of March 31, 2018 (unaudited), the interest rates of the outstanding Program Loans:

<u>Mortgage Rates (%)</u>	<u>Number of Program Loans⁽¹⁾</u>	<u>Outstanding Balance⁽²⁾</u>	<u>Percent of Total Number of Program Loans⁽²⁾</u>	<u>Percent of Total Outstanding Balance⁽²⁾</u>
0.00-1.99	167	\$ 7,404,664	1.14%	0.51%
2.00-2.99	2	159,186	0.01	0.01
3.00-3.99	3,578	416,943,887	24.33	28.75
4.00-4.49	3,636	429,238,141	24.73	29.59
4.50-4.99	2,863	325,672,111	19.47	22.45
5.00-5.49	1,172	91,417,786	7.97	6.30
5.50-5.99	1,634	96,183,106	11.11	6.63
6.00-6.49	529	40,390,558	3.60	2.78
6.50-6.99	628	30,566,566	4.27	2.11
7.00-7.49	225	7,217,305	1.53	0.50
7.50-7.99	197	3,692,820	1.34	0.25
8.00-8.99	70	1,512,428	0.48	0.10
9.00-9.49	3	35,904	0.02	0.00
9.50-12.00	1	5,910	0.01	0.00
TOTAL	14,705	\$1,450,440,372⁽³⁾	100.00%⁽³⁾	100.00%⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have passed with no payment received by the last business day of the month in which the second payment was due are

considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

The financial institutions who service Program Loans manage delinquencies by working with borrowers in an attempt to avoid defaults and by sending payment requests to borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

Delinquencies and Foreclosures as of March 31, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.40%, based on a total of 14,705 Program Loans as of March 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2018				
Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	177	\$ 16,691,322	1.45%	1.24% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.82
Privately Insured	11	879,308	1.22	0.76 ⁽⁵⁾
USDA/RD Guaranteed.....	15	950,559	1.81	⁽⁶⁾
Uninsured.....	3	189,182	0.63	⁽⁶⁾
TOTAL	206	\$ 18,710,370 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.05%, based on a total of 14,705 Program Loans as of March 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	607	\$ 55,629,626	4.97%	1.85% ⁽⁴⁾
VA Guaranteed	19	1,399,344	6.74	1.32
Privately Insured	62	3,571,790	6.90	1.13 ⁽⁵⁾
USDA/RD Guaranteed.....	39	2,434,199	4.72	⁽⁶⁾
Uninsured.....	15	799,807	3.17	⁽⁶⁾
TOTAL	<u>742</u>	<u>\$ 63,834,766⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.26%, based on a total of 14,705 Program Loans as of March 31, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2017, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	31	\$ 2,982,828	0.25%	0.51% ⁽⁴⁾
VA Guaranteed	1	117,136	0.35	0.81
Privately Insured	4	461,462	0.44	0.40 ⁽⁵⁾
USDA/RD Guaranteed.....	2	156,295	0.24	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	<u>38</u>	<u>\$ 3,717,722⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS

General

As of March 31, 2018, the Transferred Program Loans have an approximate weighted average maturity of 255.93 months and a weighted average interest rate of 5.52% per annum. Average prepayment rate information for the Transferred Program Loans is discussed in “DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS – Prepayment Experience of Transferred Program Loans” below. The Transferred Program Loans initially were financed with proceeds of THDA’s Homeownership Program Bonds, Issue 2008-2, issued pursuant to the 1985 General Resolution (the “2008-2 Bonds”) which 2008-2 Bonds are no longer outstanding. It is anticipated that the characteristics of the pool of Transferred Program Loans will be substantially similar to the loans described below (such information below is as of March 31, 2018 (unaudited); the Transferred Program Loans will not be allocable to the Offered Bonds until June 12, 2018, and Transferred Program Loan characteristics may change from March 31, 2018, to June 12, 2018).

Transferred Program Loans by Loan Type

<u>Type of Mortgage</u>	<u>Number</u>	<u>Principal Amount⁽³⁾</u>	<u>% of Transferred Principal Amount</u>
FHA Insured	153	\$ 13,191,993	91.02%
VA Guaranteed	1	51,986	0.36
Privately Insured ⁽¹⁾	0	0	0.00
USDA/RD Guaranteed	15	1,187,299	8.19
Uninsured ⁽²⁾	1	62,076	0.43
TOTAL	170	\$ 14,493,354⁽⁴⁾	100.00%

(1) This includes Program Loans for which private mortgage insurance was in place at the time of the closing of the respective Program Loan.

(2) Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, and Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Transferred Program Loans

Each private mortgage insurer insuring conventional, privately insured THDA Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least ‘AA’ by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured THDA Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least ‘AA’ by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

As of March 31, 2018 (unaudited), there were no privately insured Transferred Program Loans outstanding.

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Prepayment Experience of Transferred Program Loans

The Transferred Program Loans are composed of mortgage loans originally allocable to the 2009-1 Bonds. The table set forth below lists the actual average prepayment rate (principal only) experience as a percentage of the PSA Prepayment Model of the mortgage loans allocable to the 2009-1 Bonds for the 3 month, 6 month and 12 month periods ended on March 31, 2018, based on principal prepayment data available to THDA.

<u>Issue</u>	<u>3 Months</u>	<u>6 Months</u>	<u>12 Months</u>	<u>Since Inception</u>	<u>Weighted Average Interest Rate</u>
2009-1	127%	234%	262%	220%	5.52%

Delinquency Information for the Transferred Program Loans

The overall delinquency rate for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.18%, based on a total of 170 Transferred Program Loans as of March 31, 2018 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending December 31, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	2	\$ 152,996	1.31%	1.24% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.82
Privately Insured	0	0	0.00	0.76 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	<u>2</u>	<u>\$ 152,996⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for the Transferred Program Loans that were ninety (90) days past due was 8.24%, based on a total of 170 Transferred Program Loans as of March 31, 2018 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were ninety (90) days past due as of March 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending December 31, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	14	\$ 1,508,215	9.15%	1.85% ⁽⁴⁾
VA Guaranteed	0	0	0.00	1.32
Privately Insured	0	0	0.00	1.13 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	14	\$ 1,508,215 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate of Transferred Program Loans in foreclosure was 1.18%, based on a total of 170 Transferred Program Loans as of March 31, 2018 (unaudited).

The foreclosure rate by loan type for the Transferred Program Loans in foreclosure as of March 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA, by loan type, for the quarter ending December 31, 2017, are shown in the following table:

IN FORECLOSURE AS OF MARCH 31, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	2	\$ 213,219	1.31%	0.51% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.81
Privately Insured	0	0	0.00	0.40 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	2	\$ 213,219 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the four most recent years and for the six months ended December 31, 2017, and December 31, 2016. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2017, 2016, 2015, and 2014, and from unaudited financial information of THDA for the six months ended December 31, 2017, and December 31, 2016.

	Six Months Ended December 31 (Unaudited)		Year Ended June 30 (Audited)				
Residential Finance Bond Group	2017	2016	2017	2016	2015	2014	2013
REVENUES:							
Interest on Mortgages	\$ 29,492	\$ 22,892	\$ 49,298	\$ 36,426	\$ 25,393	\$ 13,518	\$ 222
Investment Income:							
Interest	1,409	718	1,617	2,011	1,866	335	10
Net Increase (decrease) in the Fair Value of Investments	(648)	(931)	(792)	(320)	(552)	(146)	(83)
Fees and Other Income	822	834	853	953	160	-	76
	<u>31,075</u>	<u>23,513</u>	<u>50,976</u>	<u>39,070</u>	<u>26,867</u>	<u>13,707</u>	<u>225</u>
EXPENSES:							
Interest	18,992	14,649	30,542	24,876	17,058	9,087	551
Issuance Cost	364	1,472	3,602	2,311	2,343	2,167	1,679
Mortgage Servicing Fees	2,277	1,785	3,857	2,967	2,048	980	18
Other	534	512	970	1,157	1,001	239	1
	<u>22,167</u>	<u>18,418</u>	<u>38,971</u>	<u>31,311</u>	<u>22,450</u>	<u>12,473</u>	<u>2,249</u>
Excess of Revenues over Expenses	8,908	5,095	12,005	7,759	4,417	1,234	(2,024)
Net Position at beginning of period	176,030	116,295	116,295	101,055	105,707	(68,279)	-
Other Transfers	(2,408)	9,324	47,730	7,481	(9,069)	172,752	(66,255)
Net Position at end of period	<u>\$ 182,530</u>	<u>\$ 130,714</u>	<u>\$ 176,030</u>	<u>\$ 116,295</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>	<u>\$ (68,279) ⁽¹⁾</u>

⁽¹⁾ On May 30, 2013 THDA issued its Issue 2013-1 Bonds under the General Resolution. Proceeds of the Issue 2013-1 Bonds in an aggregate principal amount of \$75,905,000 were applied to the refunding of THDA's Issue 2003-A Bonds under the 1974 General Resolution and THDA's Issue 2004-1 Bonds under the 1985 General Resolution. While the Issue 2013-1 Bonds were issued on May 30, 2013, the assets allocable to the Issue 2003-A and the Issue 2004-1 Bonds in an aggregate amount of approximately \$99,855,200 did not transfer to the General Resolution until July 1, 2013, the date of the redemption of such bonds. As a result of such transfer, the net position of the General Resolution as of July 1, 2013, was approximately \$31,576,000 (unaudited).

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of March 31, 2018 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 69,048,481	\$ 57,434,742
Federal Home Loan Mortgage Corporation Notes	0	24,752,707
Fannie Mae Notes	29,864,250	8,394,755
Financing Corporation Bonds	0	2,301,284
TOTAL.....	<u>\$ 98,912,731</u>	<u>\$ 92,883,488</u>

As of March 31, 2018 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 1,233,355	\$ 37,289,986
Federal Home Loan Mortgage Corporation Notes	0	98,893
Fannie Mae Notes	0	8,394,755
TOTAL.....	<u>\$ 1,233,355</u>	<u>\$ 45,783,634</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2022.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of March 31, 2018 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$1,985,465,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for

reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors⁽¹⁾ are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Kim Grant Brown, Chairman	June 30, 2019	Owner, Grant & Company Collierville, TN
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Tre Hargett ⁽²⁾	January, 2021	Secretary of State
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
David H. Lillard, Jr. ⁽²⁾	January, 2019	State Treasurer
Larry Martin ⁽²⁾	(3)	Commissioner, Department of Finance and Administration
Austin McMullen	June 30, 2019	Member, Bradley Arant Boult Cummings LLP Nashville
Todd Skelton ⁽²⁾	(3)	Deputy Counsel to the Governor
John K. Snodderly	June 30, 2019	Executive Director, LaFollette Housing Authority LaFollette
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Pieter J. van Vuuren	June 30, 2019	President & CEO, First National Bank of McMinnville McMinnville, TN
Justin Wilson ⁽¹⁾	January, 2019	Comptroller of the Treasury
Mary Mac R. Wilson	June 30, 2021	Director of Parish Operations, Roman Catholic Diocese of Knoxville, Knoxville, TN
Daisy Fields	(4)	Gallatin, TN

(1) One Board of Directors position appointed by the Governor is currently vacant.

(2) Ex officio member.

(3) Serves at pleasure of the Governor.

(4) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 242 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Servicing since 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Operating Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010).

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Conners & Berry (currently Bradley Arrant Boulton Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999); Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the “State”) amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

As of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ended June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees.

The TCRS covers three large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 58,506 active members in TCRS in the state and higher education employee group at June 30, 2017. This total includes 242 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation for the defined benefit plan or contributions to a defined contribution plan.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age 60 or 30 years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute at 5% of salary to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with an overall 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age 65 or the rule of 90 (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan, requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute to TCRS 18.87% of salary for the period July 1, 2017 through June 30, 2018, based on the July 1, 2016 actuarial valuation. The June 30, 2017 actuarial valuation established the employer contribution rate of 19.23% that is applicable for the period July 1, 2018 through June 30, 2019. General state employees do not contribute to this plan.

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2017 (measurement date of June 30, 2016), the net pension liability for the state and higher education employee group based on the market value of assets was \$1.8 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 87.96%.

Actuarial Data for Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, an actuarial valuation is performed to determine the employer contribution rate as well as the actuarially determined contribution (ADC) and the stabilization reserve rate. For the period July 1, 2017 through June 30, 2018, the overall 4% employer contribution rate to TCRS consists of 3.94% for general employees, with the employer rate for judicial and public safety employees being higher at 6.77% and 4.79%, respectively. The employer contribution rate for general employees of 3.94% consists of 1.29% for the ADC and 2.65% for the stabilization reserve.

For the period July 1, 2018 through June 30, 2019, the employer contribution rate consists of 3.95% for general employees, with the employer rate for judicial and public safety employees being higher at 7.43% and 4.80%, respectively. The employer contribution rate for general employees of 3.95% consists of 1.66% for the ADC and 2.29% for the stabilization reserve.

THDA Employer Contributions for Pensions (TCRS and defined contribution plan)

For THDA, the employer contribution rate for employees hired before July 1, 2014, stated as a percentage of salary, is as follows: 18.87% for the period July 1, 2017 through June 30, 2018, and 19.23% for the period July 1, 2018 through June 30, 2019. For employees first hired after June 30, 2014, the employer rate is 8.94% for the period July 1, 2017 through June 30, 2018 and 8.95% for the period July 1, 2018 through June 30, 2019 (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions for the pension plans are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	THDA Employer Contributions to DC (Open Plan)	Percentage of THDA Budget
2018 ⁽¹⁾	18.87/9.00% ⁽²⁾	\$ 17,415,000 ⁽¹⁾	\$ 2,440,500 ⁽¹⁾	\$ 207,900 ⁽¹⁾	2.37% ⁽¹⁾
2017	15.02/9.00 ⁽²⁾	13,396,776 ⁽³⁾	1,577,092	183,030	1.53
2016	15.03/9.00 ⁽²⁾	11,965,554	1,581,407	100,999	1.38
2015	15.02/9.00 ⁽²⁾	11,569,902	1,673,881	28,731	1.21
2014	15.03	11,721,300	1,761,711		1.19
2013	15.03	11,315,872	1,692,847		1.26
2012	14.91	11,005,204	1,632,095		1.36
2011	14.91	10,593,944	1,585,654		1.25
2010	13.02	9,956,646	1,295,272		1.03
2009	13.02	9,267,262	1,201,303		0.98

(1) Estimated

(2) Varies depending on plan the employee is enrolled in.

(3) The increase in "Total Salary of THDA Employees" from the actual amount for the fiscal year ended June 30, 2016, to the estimated amount for the fiscal year ended June 30, 2017, is due to the additional salaries for approximately thirty eight (38) positions THDA expects to fill in connection with the servicing activities THDA expects to undertake later in 2017.

For the fiscal year ended June 30, 2017, the salary of THDA employees totaled \$13,396,776, which represents 0.47% of the \$2.85 billion of salary for all state and higher education employees in TCRS.

It is anticipated that there will be upward pressure on the employer contribution rate in the Closed State and Higher Education Employee Pension Plan in future actuarial valuations as deferred investment losses that have been actuarially smoothed are recognized over the next ten years as well as a continuing low earnings environment.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

General Information about the 401(k) and 457 Defined Contribution Plans

The state provides additional voluntary defined contribution plans to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Employee contribution limits to the 401(k) and 457 plans are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA. The THDA contribution for the fiscal year ended June 30, 2017 was \$79,509.38.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 45 and 74) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2015, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used a projected unit credit actuarial cost method, indicates that for the fiscal year ended June 30, 2017, the total unfunded actuarial liability of THDA is approximately \$2,923,000 and the annual required contribution for THDA is approximately \$353,000. The annual required contribution consists of the normal cost (the portion of the actuarial present value of OPEB benefits which is allocated to a valuation year by the actuarial cost method) and an amortization of the unfunded actuarial liability. The report may be reviewed at <https://www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-opeb.html>. The State did not pre-fund any actuarially determined OPEB liability, and continued to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for fiscal year ended June 30, 2017. The State charged THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that interest on the Issue 2018-2 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code. No federal alternative minimum tax applies to corporations for tax years beginning after December 31, 2017.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a "Premium Bond") over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or otherwise prevent beneficial owners of the Issue 2018-2 Bonds from realizing the full current benefit of the tax status of such interest, or adversely affect the market value of the Issue 2018-2 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Issue 2018-2 Bonds. Purchasers of the Issue 2018-2 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Issue 2018-2 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation, regulatory initiatives or litigation.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and that Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

Due to the ongoing uncertainty regarding the economy of the United States of America (including, without limitation, matters such as the current and future political uncertainty regarding the United States debt limit), obligations, such as the Offered Bonds, issued by state and local governments, and instrumentalities thereof, could be subject to a

rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Offered Bonds. When certain automatic spending cuts are imposed on the federal government as a result of actions taken or not taken by the federal government (commonly referred to as a sequester) or when the federal government fails to pass certain spending authorizations prior to certain deadlines, resulting in a cessation of various governmental functions and operations (commonly referred to as a government shutdown), there may not be any immediate direct adverse impact on FHA, VA, RD or THDA. No assurance can be given, however, that a sequester or a government shutdown that lasts an extended period of time would continue to have no direct adverse impact upon the United States housing industry in general or THDA in particular.

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, THDA, in the Issue 2018-2 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2018-2 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Preliminary Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MSRB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of

all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2018-2 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2018-2 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2018-2 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2018-2 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MRSB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2017, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the six months ended December 31, 2017. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

RBC Capital Markets, LLC, Citigroup Global Markets Inc., LLC, Raymond James & Associates, Inc., J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and Wiley Bros.—Aintree Capital, LLC (collectively, the “Underwriters”) have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$970,197.44. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

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

J.P. Morgan Securities LLC (“JPMS”), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

Wells Fargo Bank, National Association, acting through its Municipal Products Group (“WFBNA”), one of the underwriters of the Offered Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Offered Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Offered Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Offered Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference

to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Kim Grant Brown

Chair

/s/ Ralph M. Perrey

Executive Director



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

APPENDIX A

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and the other postemployment benefits schedule of funding progress, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA
Director
December 11, 2017

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2017

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2017, with comparative information presented for the fiscal year ended June 30, 2016. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

Introduction – The Tennessee Housing Development Agency

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2017, THDA has originated over 116,000 single-family mortgage loans in its 44-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated*, Section 13-23-105). This board meets regularly on a bimonthly basis; however, some committees may meet more often as situations dictate.

Overview of the Financial Statements

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discretely presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <http://www.tn.gov/finance/article/fa-accfin-cafr>.

Financial Highlights

Year Ended June 30, 2017

- Total assets increased by \$99.1 million, or 4.0%.
- Total liabilities increased by \$102.4 million, or 5.2%.
- Net position was \$510.0 million. This is a decrease of \$1.0 million, or 0.2%, from fiscal year 2016.
- Cash and cash equivalents increased by \$137.3 million, or 59.2%.
- Total investments decreased by \$68.5 million, or 24.9%.
- Bonds payable increased by \$74.0 million, or 3.9%.
- THDA originated \$325.9 million in new loans, which is an increase of \$32.4 million, or 11.0%, from the prior year.

Financial Analysis of the Agency

Net Position – The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	2017	2016
Current assets	\$ 427,265	\$ 393,675
Capital assets	1,809	1,175
Other noncurrent assets	2,146,413	2,081,560
Total assets	2,575,487	2,476,410
Deferred outflows of resources	4,726	3,142
Current liabilities	185,772	149,798
Noncurrent liabilities	1,883,961	1,817,534
Total liabilities	2,069,733	1,967,332
Deferred inflows of resources	514	1,288
Invested in capital assets	1,809	1,175
Restricted net position	430,633	430,114
Unrestricted net position	77,524	79,643
Total net position	\$ 509,966	\$ 510,932

2017 to 2016

THDA's total net position decreased by \$1.0 million because operating income was less than the amount by which nonoperating expenses exceeded nonoperating revenues.

First and second mortgage loans (net of allowance for forgivable second mortgages) receivable increased by \$31.7 million. During fiscal year 2017, single-family mortgage loan originations increased by \$32.4 million, whereas mortgage loan payoffs decreased by \$23.1 million and mortgage loan repayments decreased \$2.4 million. In addition, THDA recognized an allowance for future forgiveness of forgivable second mortgages of \$10.0 million for fiscal year 2017.

Total liabilities increased \$102.4 million. The increase is primarily due to a \$74.0 million increase of bonds payable at June 30, 2017, as compared to June 30, 2016.

Changes in Net Position – The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	2017	2016
Operating revenues		
Mortgage interest income	\$ 87,963	\$ 90,235
Investment income	1,743	5,872
Other	18,546	17,052
Total operating revenues	108,252	113,159
Operating expenses		
Interest expense	56,892	62,045
Other	41,980	41,916
Total operating expenses	98,872	103,961
Operating income	9,380	9,198
Nonoperating revenues (expenses)		
Grant revenues	277,877	269,226
Grant expenses	(288,223)	(281,899)
Total nonoperating revenues (expenses)	(10,346)	(12,673)
Change in net position	\$ (966)	\$ (3,475)

2017 to 2016

Total operating revenues decreased \$4.9 million, primarily due to a decrease in investment income of \$4.1 million. During fiscal year 2017, certain long-term investments with high interest yields matured, which were re-invested into other investments having contemporary investment yields. In addition, fair value of investments decreased by \$3.8 million in fiscal year 2016 and decreased by \$5.6 million in fiscal year 2017.

Total operating expenses decreased \$5.1 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

Debt Activity – Bonds outstanding at June 30 were as follows (expressed in thousands):

	2017	2016
Bonds payable	\$1,980,456	\$1,906,494

Year Ended June 30, 2017

Total bonds payable increased \$74.0 million, which is deemed an insignificant year-over-year variance. During the fiscal year, THDA issued debt totaling \$462.0 million, with activity arising from four bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$47.7 million of outstanding bonds into new bond originations with lower interest rates. In addition to the nominal tax-exempt mortgage revenue bonds issued, THDA also issued one taxable bond issue primarily for economic refunding opportunities.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard & Poor's Ratings Services (S&P), a division of The McGraw-Hill Companies, Inc., has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during fiscal year 2017 or fiscal year 2016.

Debt Limits

In accordance with *Tennessee Code Annotated*, Section 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

Grant Programs

During fiscal year 2007 through fiscal year 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors allocated additional THDA funds for grants. These funds established a grant program that was titled by THDA the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

	2017	2016	2015 and Prior	Total
Funding Sources:				
THDA	\$7,500,000	\$7,500,000	\$59,800,000	\$74,800,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	\$7,500,000	\$7,500,000	\$64,150,000	\$79,150,000
Approved Uses:				
Rural repair program (USDA)	\$ -	\$ -	\$ 6,300,000	\$ 6,300,000
Ramp Programs & Hsg Modification	300,000	-	1,350,000	1,650,000
Emergency Repairs	2,700,000	2,700,000	15,800,000	21,200,000
Competitive Grants	3,500,000	2,800,000	34,800,000	41,100,000
Rebuild & Recover	500,000	500,000	2,800,000	3,800,000
Other Grants	500,000	1,500,000	3,100,000	5,100,000

Totals	\$7,500,000	\$7,500,000	\$64,150,000	\$79,150,000

Current Mortgage Products and Environment

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the Great Choice and the Great Choice Plus loan programs were introduced and the Great Rate, Great Advantage, and Great Start loan programs were eliminated. The Great Choice loan program offers THDA the opportunity to offer a more competitive interest rate on its 30-year fixed rate mortgage product while still offering down payment assistance with the addition of the Great Choice Plus loan program, which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the Great Choice Plus loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15. Subsequently, in October of 2016, the Great Choice Loan product was revised to feature a 30-year forgiveness requirement, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced or otherwise paid in full within the first 30 years of closing.

A special interest rate reduction on the Great Choice loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as “Homeownership for the Brave,” provides a 0.5% rate reduction on the current interest rate for Great Choice loans. In addition to the rate reduction, Homeownership for the Brave applicants are eligible for optional down payment and closing cost assistance through the Great Choice Plus second mortgage loan at a 0% interest rate.

All first mortgage loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages, interest-only mortgages, “buy-down” loans, mortgages with a future lump-sum payment due (balloon-type mortgages), or with other similar mortgage terms. THDA does not make or purchase “sub-prime” mortgage loans. Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor’s Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae

or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have LTV ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's Internet site at <https://thda.org/homebuyers/homebuyers>.

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2017, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principle Amount Outstanding	Percentage ¹
60 – 89 Days Past Due	23,187	413	\$ 33,195,660	1.78%
90+ Days Past Due	23,187	1,388	108,494,506	5.99%
In Foreclosure	23,187	163	15,139,374	0.69%

Economic Factors

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a benchmark, THDA uses the one-, three-, and five-year Constant Maturity Treasury rates as established by the United States Treasury.

The continuation of relatively low interest rates from a historic perspective increases the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

Direct Loan Servicing

During FY 2017, THDA began the direct servicing of mortgage loans under the name of Volunteer Mortgage Loan Servicing ("VMLS"). On November 1, 2016, the servicing of approximately 1,800 THDA mortgage loans having an outstanding principal balance of \$91.5 million was transferred to VMLS from an existing THDA mortgage servicer.

Contacting THDA's Financial Management

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends.

¹ Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

If you have questions about this report or need additional financial information, contact Trent Ridley, Chief Financial Officer, at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2017
(Expressed in Thousands)

ASSETS

Current assets:		
Cash and cash equivalents (Note 2)	\$	262,872
Investments (Note 2)		61,346
Receivables:		
Accounts		993
Interest		11,531
First mortgage loans		62,336
Due from federal government		28,186
Prepaid expenses		<u>1</u>
Total current assets		<u>427,265</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		106,050
Investments (Note 2)		95,738
Investment interest receivable		881
Investments (Note 2)		49,135
First mortgage loans receivable		1,870,877
Second mortgage loans receivable		30,559
Allowance for forgivable second mortgages		(9,984)
Advance to local government		3,124
Net pension asset (Note 5)		33
Capital assets:		
Furniture and equipment		3,565
Less accumulated depreciation		<u>(1,756)</u>
Total noncurrent assets		<u>2,148,222</u>
Total assets		<u>2,575,487</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refundings		862
Deferred outflows related to pensions (Note 5)		<u>3,864</u>
Total deferred outflows of resources		<u>4,726</u>

LIABILITIES

Current liabilities:		
Accounts payable		13,359
Accrued payroll and related liabilities		632
Compensated absences		667
Due to primary government		723
Interest payable		29,855
Escrow deposits		1,536
Prepayments on mortgage loans		1,279
Due to federal government		26,301
Bonds payable (Note 3)		<u>111,420</u>
Total current liabilities		<u>185,772</u>
Noncurrent liabilities:		
Bonds payable (Note 3)		1,869,036
Compensated absences		647
Net pension liability (Note 5)		7,652
Net OPEB obligation (Note 9)		1,661
Escrow deposits		3,855
Arbitrage rebate payable		<u>1,110</u>
Total noncurrent liabilities		<u>1,883,961</u>
Total liabilities		<u>2,069,733</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 5)		<u>514</u>
Total deferred inflows of resources		<u>514</u>

NET POSITION

Net investment in capital assets		1,809
Restricted for single family bond programs (Note 4 and Note 7)		418,137
Restricted for grant programs (Note 4)		9,310
Restricted for Homebuyers Revolving Loan Program (Note 4)		3,153
Restricted for net pension asset (Note 5)		33
Unrestricted (Note 7)		<u>77,524</u>
Total net position	\$	<u>509,966</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

OPERATING REVENUES

Mortgage interest income	\$ 87,963
Investment income:	
Interest	7,319
Net (decrease) in the fair value of investments	(5,576)
Federal grant administration fees	13,784
Fees and other income	4,762
Total operating revenues	<u>108,252</u>

OPERATING EXPENSES

Salaries and benefits	18,404
Contractual services	5,665
Materials and supplies	1,576
Rentals and insurance	25
Other administrative expenses	694
Other program expenses	5,273
Interest expense	56,892
Mortgage service fees	6,391
Issuance costs	3,602
Depreciation	350
Total operating expenses	<u>98,872</u>
Operating income	<u>9,380</u>

NONOPERATING REVENUES (EXPENSES)

Federal grants revenue	277,873
Other grants revenue	4
Federal grants expenses	(277,717)
Local grants expenses	(10,506)
Total nonoperating revenues (expenses)	<u>(10,346)</u>
Change in net position	<u>(966)</u>
Total net position, July 1	<u>510,932</u>
Total net position, June 30	<u>\$ 509,966</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 386,565
Receipts from federal government	13,867
Receipts from other funds	551
Other miscellaneous receipts	4,762
Acquisition of mortgage loans	(325,857)
Payments to service mortgages	(6,391)
Payments to suppliers	(9,197)
Payments to federal government	(3,684)
Payments to other funds	(551)
Payments to or for employees	(18,852)
Net cash provided by operating activities	<u>41,213</u>
Cash flows from non-capital financing activities:	
Operating grants received	300,591
Proceeds from sale of bonds	473,792
Operating grants paid	(285,422)
Call premium paid	(36)
Cost of issuance paid	(3,602)
Principal payments	(393,570)
Interest paid	(65,442)
Net cash provided by non-capital financing activities	<u>26,311</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(983)
Net cash used by capital and related financing activities	<u>(983)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	389,882
Purchases of investments	(327,170)
Investment interest received	7,780
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	219
Net cash provided by investing activities	<u>70,711</u>
Net increase in cash and cash equivalents	137,252
Cash and cash equivalents, July 1	<u>231,670</u>
Cash and cash equivalents, June 30	\$ <u>368,922</u>

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ <u>9,380</u>
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Depreciation	350
Changes in assets and liabilities:	
Decrease in accounts receivable	3,067
Decrease in mortgage interest receivable	398
(Increase) in pension asset	(20)
(Increase) in deferred pension outflows	(1,703)
(Increase) in mortgage loans receivable	(31,780)
Decrease in due from federal government	83
Increase in accounts payable	3,395
Increase in accrued payroll /	
compensated absences	176
Increase in due to primary government	651
(Decrease) in arbitrage rebate liability	(2,984)
Increase in pension liability	2,223
(Decrease) in deferred pension inflows	(774)
Investment income included as operating revenue	(1,743)
Interest expense included as operating expense	56,892
Issuance cost included as operating expense	<u>3,602</u>
Total adjustments	<u>31,833</u>
Net cash provided by operating activities	\$ <u><u>41,213</u></u>
Noncash investing, capital, and financing activities:	
(Decrease) in fair value of investments	\$ <u>(3,111)</u>
Total noncash investing, capital, and financing activities	\$ <u><u>(3,111)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee Housing Development Agency (THDA) was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as ex officio board members of the agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and Title 24, *Code of Federal Regulations*, Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

THDA is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds

Notes to the Financial Statements (Continued)

and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, the Tax and Insurance Holding/Escrow account, Payment Clearing and Disbursement accounts, and Net Pension Assets (see note 4).

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

The Tax and Insurance Holding/Escrow account is used to service mortgage accounts. These funds are tax and insurance escrows held on behalf of various mortgagors from payments collected on mortgages. The agency is obligated to expend these monies on escrowed items. The Payment Clearing and Disbursement accounts are also used to service mortgages.

Deferred Amount on Refundings and Bond Premiums and Discounts

Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.

Notes to the Financial Statements (Continued)

Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

Mortgages

Mortgages are carried at their original amount less collected principal.

Loan Servicing

On November 1, 2016, THDA began servicing the mortgage loans previously serviced by an approved THDA Loan Servicer and in May of 2017 began servicing the loans originated from THDA's Originating Agents.

Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds.

Notes to the Financial Statements (Continued)

outstanding. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Allowance for Forgivable Second Mortgages

THDA has offered the Down Payment Assistance product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period.

Beginning in April 2017 this product changed to 100% forgivable second mortgage loan for the 30-year term of the first mortgage. It is 100% repayable in the event the home is sold, refinanced or owners move out of the home. Because of the likelihood that the majority of second mortgage loans will be repaid in the course of the 30-year term, the allowance account established for the second mortgage loans beginning October 2014 will not be used for any second mortgages made after March 2017.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Note 2. Deposits and Investments

Deposits

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

Notes to the Financial Statements (Continued)

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2017, the bank balance was \$32,272,907. This amount includes \$1,744,933; which is held in a T&I Escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf. All bank balances at June 30, 2017, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2017, \$28,690,966 was in the BNYM. Of this amount, \$28,440,966 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the State of Tennessee Treasurer's Report. That report is available on the state's website at www.treasury.tn.gov.

Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk – Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Notes to the Financial Statements (Continued)

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

June 30, 2017		
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$124,172,337	1.728
U.S. Treasury Coupon	27,114,235	2.056
U.S. Agency Discount	162,862,870	0.084
Total	\$314,149,442	0.905

Fair Value Measurements – THDA implemented GASB Statement 72, *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2017, (expressed in thousands):

June 30, 2017				
Assets by Fair Value Level	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Agency Coupon	\$124,172	\$ -	\$124,172	\$ -
U.S. Treasury Coupon	27,114	27,114	-	-
U.S. Agency Discount	162,863	-	162,863	-
Total debt securities	\$314,149	\$27,114	287,035	\$ -

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets as those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets as those securities. Level 3 valuations are derived from valuation techniques in which significant inputs are unobservable.

Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to the Investments section of Note 1 for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2017, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

Notes to the Financial Statements (Continued)

June 30, 2017					
Investment Type	Fair Value	U.S. Treasury ¹	AAA	AA+	Not Rated ²
U.S. Agency Coupon	\$124,172,337	\$ -	\$ -	\$121,738,787	\$ 2,433,550
U.S. Treasury Coupon	27,114,235	27,114,235	-	-	-
U.S. Agency Discount	162,862,870	-	-	-	162,862,870
Total	\$314,149,442	\$27,114,235	\$-	\$121,738,787	\$165,296,420

In addition to these investments, the agency has \$229,226,502 invested in a money market fund. This fund is measured at amortized cost and has a Standard and Poors rating of AAA.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

June 30, 2017		
Issuer	<u>Fair Value</u> <u>(Thousands)</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$178,179	56.72
Federal Home Loan Mortgage Corp.	\$31,734	10.10
Federal National Mortgage Assoc.	\$74,688	23.77

GASB 79 Disclosures – During fiscal year 2016, THDA implemented GASB Statement 79, *Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that THDA participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of \$5 million or more.

Note 3. Liabilities

Bonds Issued and Outstanding

Homeownership Program Bonds				Ending Balance 6/30/2017
Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	(Thousands)
2007-4	1/1/2009 – 7/1/2038	150,000	3.75 to 5.50	23,110
2008-1	7/1/2009 – 1/1/2039	60,000	2.45 to 5.70	12,920
2009-1	1/1/2010 – 7/1/2029	50,000	0.75 to 5.00	17,060

¹ This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

² This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

Notes to the Financial Statements (Continued)

2009-2	7/1/2010 – 7/1/2030	75,000	0.90 to 5.00	22,125
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50	43,110
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65	77,430
2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50	71,785
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00	55,795
Total Homeownership Program Bonds		\$827,690		\$ 323,335
Plus: Unamortized Bond Premiums				2,817
Net Homeownership Program Bonds				<u>\$326,152</u>

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2017 (Thousands)
2009-A	1/1/2011 – 1/1/2040	\$100,000	0.90 to 4.625	\$ 11,265
2010-A	1/1/2011 – 7/1/2041	160,000	0.60 to 5.00	16,840
2010-B	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	49,435
2011-A	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	14,900
2011-B	7/1/2012 – 7/1/2041	100,000	0.25 to 4.50	54,985
2011-C	7/1/2012 – 7/1/2041	100,000	0.40 to 4.30	52,385
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	118,405
Total Housing Finance Program Bonds		\$810,000		\$318,215
Plus: Unamortized Bond Premiums				3,521
Net Housing Finance Program Bonds				<u>\$321,736</u>

Residential Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2017 (Thousands)
2013-1	1/1/2014 – 7/1/2043	\$ 215,905	0.40 to 4.00	\$ 122,355
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	79,315
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	110,980
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	122,025
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	135,000
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	157,285
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	117,765
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	120,775
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	62,000
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	100,000
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	175,000
Total Residential Finance Program Bonds		\$1,549,205		\$1,302,500
Plus: Unamortized Bond Premiums				30,079
Net Residential Finance Program Bonds				<u>\$1,332,579</u>
Net Total All Bonds				<u>\$1,980,467</u>

Housing Finance Program Bonds – The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New

Notes to the Financial Statements (Continued)

Issue Bond Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

Debt Service Requirements

Debt service requirements to maturity at June 30, 2017, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2018	\$ 40,650	\$ 62,967	\$ 103,617
2019	70,865	65,092	135,957
2020	73,235	63,386	136,621
2021	77,710	61,470	139,180
2022	76,730	59,291	136,021
2023 – 2027	387,255	259,290	646,545
2028 – 2032	379,994	193,992	573,986
2033 – 2037	374,226	123,720	497,946
2038 – 2042	331,540	57,686	389,226
2043 - 2047	131,845	10,269	142,114
Total	\$1,944,050	\$957,163	\$2,901,213

Redemption of Bonds and Notes

During the year ended June 30, 2017, bonds were retired at par before maturity in the Homeownership Program in the amount of \$97,236,000, in the Housing Finance Program in the amount of \$70,510,000, and in the Residential Finance Program in the amount of \$111,550,000.

Notes to the Financial Statements (Continued)

The respective carrying values of the bonds were \$98,407,537, \$71,242,629 and \$114,475,759. This resulted in revenue to the Homeownership Program of \$1,171,537, to the Housing Finance Program of \$732,629, and to the Residential Finance Program of \$2,925,759.

On May 18, 2016, the agency issued \$125,000,000 in Residential Finance Program Bonds, Issue 2016-1. On July 1, 2016, the agency used \$24,060,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$24,060,000 early redemption). The carrying amount of these bonds was \$24,060,000. The refunding increased the agency's debt service by \$5,737,592 over the next 20.00 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$3,034,466.

On October 18, 2016, the agency issued \$125,000,000 in Residential Finance Program Bonds, Issue 2016-2. On January 1, 2017, the agency used \$24,205,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$24,205,000 early redemption). The carrying amount of these bonds was \$24,205,000. The refunding reduced the agency's debt service by \$292,971 over the next 20.00 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$3,273,731.

On November 16, 2016, the agency issued \$62,000,000 in Residential Finance Program Bonds, Issue 2016-3. On January 1, 2017, the agency used \$62,000,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$62,000,000 early redemption). The carrying amount of these bonds was \$63,848,048. The refunding reduced the agency's debt service by \$29,424,149 over the next 20.125 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$16,645,830.

On March 30, 2017, the agency issued \$100,000,000 in Residential Finance Program Bonds, Issue 2017-1.

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2017 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2016	Additions	Reductions	Ending Balance June 30, 2017	Amounts Due Within One Year ³
Bonds Payable	\$1,875,620	\$462,000	(\$393,570)	\$1,944,050	\$111,420,
Plus: Unamortized Bond Premiums	30,916	11,995	(6,505)	36,406	-
Less: Unamortized Bond Discounts	(42)	-	42	-	-
Compensated Absences	1,244	70	-	1,314	667
Net Pension Liability	5,429	3,784	(1,561)	7,652	-
Escrow Deposits	3,437	4,798	(2,844)	5,391	1,536

³Amounts due within one year include management authorized bond refundings at June 30.

Notes to the Financial Statements (Continued)

Arbitrage Rebate Payable	4,094	700	(3,684)	1,110	-
Total	\$1,920,698	\$483,347	(\$408,122)	\$1,995,923	\$113,623

Note 4. Restricted Net Position

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

Note 5. Pension Plans

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Notes to the Financial Statements (Continued)

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. THDA employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2017, to the Closed State and Higher Education Employee Pension Plan were \$1,542,218, which is 15.02 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2017, THDA reported a liability of \$7,652,061 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial

valuation as of that date. THDA's proportion of the net pension liability was based on a projection of THDA's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, THDA's proportion was 0.419391 percent. The proportion measured as of June 30, 2015, was 0.421046.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, THDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 429,122	\$ 406,599
Net difference between projected and actual earnings on pension plan investments	1,850,632	-
Changes in proportion	-	103,989
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2016	1,542,218	-
Total	\$3,821,972	\$510,588

Deferred outflows of resources, resulting from THDA's employer contributions of \$1,542,218 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$63,089
2019	63,089
2020	1,105,389
2021	537,600
2022	-
Thereafter	-

Actuarial assumptions – The total pension liability as of the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Notes to the Financial Statements (Continued)

Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012, actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-

Notes to the Financial Statements (Continued)

term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents THDA’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what THDA’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency’s proportionate share of the net pension liability	\$15,037,844	\$7,652,061	1,424,149

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2017, THDA reported a payable of \$61,261 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2017.

State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description – State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under *Tennessee Code Annotated* Title 8, Chapters 34-37.

Benefits provided – *Tennessee Code Annotated* Title 8, Chapters 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member’s age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member’s highest five consecutive year average compensation by 1.0 percent multiplied by member’s years of service credit. A reduced early retirement benefit is available at age 60 with

Notes to the Financial Statements (Continued)

5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2017, to the State and Higher Education Employee Retirement Plan were \$34,927, which is 1.14 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Asset, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2017, THDA reported an asset of \$33,000 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA's proportion of the net pension asset was based on a projection of THDA's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, THDA's proportion was 0.391715 percent. The proportion measured as of June 30, 2015, was 0.457171.

Notes to the Financial Statements (Continued)

Pension expense – For the year ended June 30, 2017, THDA recognized a pension expense of \$18,614. Allocated pension expense was \$18,475 before being increased by \$139 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,401	\$3,546
Net difference between projected and actual earnings on pension plan investments	3,848	-
Changes in proportion	1,110	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2016	34,927	-
Total	\$42,286	\$3,546

Deferred outflows of resources, resulting from THDA's employer contributions of \$34,927 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$ 934
2019	934
2020	934
2021	776
2022	(68)
Thereafter	303

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension asset as of the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012, actuarial experience study and included some adjustment for expected future improvement in life expectancy.

Notes to the Financial Statements (Continued)

The actuarial assumptions used in the June 30, 2016, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents THDA's proportionate share of the net pension asset calculated using the discount rate of 7.5 percent, as well as what THDA's proportionate share of the net pension asset

Notes to the Financial Statements (Continued)

would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension asset	\$3,946	\$33,000	\$54,766

Payable to the Pension Plan

At June 30, 2017, THDA reported a payable of \$1,820 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2017 for both defined benefit pension plans was \$1,303,618.

Note 6. Deferred Compensation Plans

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code, Section 457, and the other pursuant to *Internal Revenue Code* (IRC), Section 401(k). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The THDA provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The THDA recognized a pension expense of \$262,539 for employer contributions.

Notes to the Financial Statements (Continued)

The THDA recognized a pension payable of \$13,001 for employer contributions

Note 7. Provisions for Mortgage Loan Losses

Most mortgage loans are insured by the Federal Housing Administration, an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

Note 8. Insurance-Related Activities

Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property; crime and fidelity coverage on the state's officials and employees; and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

Notes to the Financial Statements (Continued)

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2017, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2017, the Risk Management Fund held \$167 million in cash designated for payment of claims.

Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 9. Other-Postemployment Benefits

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated*, Section 8-27-201. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. Any employee hired on or after July 1, 2015, is not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Notes to the Financial Statements (Continued)

Special Funding Situation – The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including THDA (see Note 10). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy – The premium requirements of plan members of the State Employment Group Plan are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan, adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 25 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retirees 65 years of age or older are provided flat-rate premium subsidies, based on years of service. Retirees with 30 years of service receive \$50 per month; retirees with 25 but less than 30 years of service, \$37.50; and retirees with 15 but less than 20 years of service, \$25.

THDA Annual OPEB Cost and Net OPEB Obligation State Employee Group Plan (Thousands)

	June 30, 2017
Annual Required Contribution (ARC)	\$353
Interest on the Net OPEB Obligation	60
Adjustment to the ARC	(60)
Annual OPEB cost	353
Amount of contribution	(294)
Increase in Net OPEB Obligation	59
Net OPEB Obligation-beginning of year	1,602
Net OPEB Obligation-end of year	<u>\$1,661</u>

Year End	Plan	Annual OPEB Cost (Thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End (Thousands)
6/30/2017	State Employee Group Plan	\$353	83%	\$1,661
6/30/2016	State Employee Group Plan	\$341	74%	\$1,602
6/30/2015	State Employee Group Plan	\$357	71%	\$1,516

Funded Status and Funding Progress – The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2015, was as follows (expressed in thousands):

Actuarial valuation date	7/01/2015
Actuarial accrued liability (AAL)	\$ 2,923
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 2,923
Actuarial value of assets as a % of the AAL	0%

Notes to the Financial Statements (Continued)

Covered payroll (active plan members)	\$10,046
UAAL as a percentage of covered payroll	29%

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions – Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2015, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreases to 6% in fiscal year 2016, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

Note 10. On-Behalf Payments

During the year ended June 30, 2017, the State of Tennessee made payments of \$7,163 on behalf of THDA for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 11. Payments to Primary Government

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157

Notes to the Financial Statements (Continued)

from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

Note 12. Subsequent Events

Residential Finance Program Bonds, Issue 2017-3, were sold on September 28, 2017. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2017-3	7/1/2018 – 1/1/2048	\$99,900,000	0.800 to 3.650

Residential Finance Program Bonds, Issue 2017-4, were authorized by the board of directors on September 22, 2017, not to exceed \$100,000,000. The sale of the bonds will occur no later than February 28, 2018.

In order to preserve Tax-Exempt Private Activity Bond volume capacity, Residential Finance Program Convertible Option Bonds, Issue 2017-5, were authorized by the board of directors on November 14, 2017, not to exceed \$900,000,000. The sale of the bonds will occur no later than December 31, 2017.

Note 13. Events (Unaudited) Subsequent to the Date of the Independent Auditor's Report

Residential Finance Program Bonds, Issue 2017-4, were sold on December 19, 2017. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2017-4	7/1/2018 – 7/1/2048	\$99,900,000	0.950 to 4.000

Due to final tax law changes, THDA did not close Issue 2017-5.

Residential Finance Program Bonds, Issue 2018-1, were authorized by the board of directors on January 23, 2018, not to exceed \$150,000,000. The sale of the bonds will occur no later than June 30, 2018.

Residential Finance Program Bonds, Issue 2018-2, were authorized by the board of directors on March 27, 2018, not to exceed \$175,000,000. The sale of the bonds will occur no later than June 30, 2018.

Notes to the Financial Statements (Continued)

Residential Finance Program Bonds, Issue 2018-1, were sold on March 29, 2018. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2018-1	1/1/2019 – 1/1/2043	\$99,900,000	1.400 to 4.000

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA's Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
2017	0.391715%	\$33	\$1,661	1.99%	130.56%
2016	0.457171%	\$13	\$498	2.60%	142.55%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.419391%	\$7,652	\$10,240	74.73%	87.96%
2016	0.421046%	5,429	10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
State and Higher Education Employee Retirement Plan

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2017	\$35	\$35	\$-	\$3,068	1.14%
2016	47	47	-	1,661	2.81%
2015	19	19	-	498	3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2017	\$1,542	\$1,542	\$-	\$10,268	15.02%
2016	1,539	1,539	-	10,240	15.03%
2015	1,652	1,652	-	10,994	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%
2009	1,201	1,201	-	9,224	13.02%
2008	1,297	1,297	-	9,522	13.62%

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Other Postemployment Benefits Schedule of Funding Progress

(Expressed in Thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2015	State Employee Group Plan	\$-	\$2,923	\$2,923	0%	\$10,046	29%
7/1/2013	State Employee Group Plan	\$-	\$2,964	\$2,964	0%	\$ 9,841	30%
7/1/2011	State Employee Group Plan	\$-	\$2,919	\$2,919	0%	\$ 9,818	30%

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 942	\$ 20,592	\$ 42,719	\$ 32,791	\$ 165,828	\$ 262,872
Investments	-	598	9,620	4,577	46,551	61,346
Receivables:						
Accounts	-	211	-	-	782	993
Interest	-	19	2,561	2,560	6,391	11,531
First mortgage loans	156	2,087	17,772	9,326	32,995	62,336
Due from federal government	28,186	-	-	-	-	28,186
Due from other funds	1,863	-	-	-	427	2,290
Prepaid expenses	1	-	-	-	-	1
Total current assets	31,148	23,507	72,672	49,254	252,974	429,555
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	30,424	-	47,337	7,509	20,780	106,050
Investments	-	-	56,784	13,697	25,257	95,738
Investment Interest receivable	-	-	769	48	64	881
Investments	-	1,787	-	-	47,348	49,135
First mortgage loans receivable	544	47,969	328,173	310,642	1,183,549	1,870,877
Second mortgage loans receivable	-	-	30,559	-	-	30,559
Allowance for forgivable second	-	-	(9,984)	-	-	(9,984)
Advance to local government	3,124	-	-	-	-	3,124
Net pension asset	33	-	-	-	-	33
Capital assets:						
Furniture and equipment	3,565	-	-	-	-	3,565
Less accumulated depreciation	(1,756)	-	-	-	-	(1,756)
Total noncurrent assets	35,934	49,756	453,638	331,896	1,276,998	2,148,222
Total assets	67,082	73,263	526,310	381,150	1,529,972	2,577,777
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	640	862
Deferred outflows related to pension	3,864	-	-	-	-	3,864
Total deferred outflows of resources	3,864	-	222	-	640	4,726
LIABILITIES						
Current liabilities:						
Accounts payable	11,307	2	1,221	779	50	13,359
Accrued payroll and related liabilities	632	-	-	-	-	632
Compensated absences	667	-	-	-	-	667
Due to primary government	723	-	-	-	-	723
Interest payable	-	-	6,463	5,414	17,978	29,855
Escrow deposits	1,536	-	-	-	-	1,536
Prepayments on mortgage loans	10	-	235	175	859	1,279
Due to federal government	26,301	-	-	-	-	26,301
Due to other funds	-	-	2,290	-	-	2,290
Bonds payable	-	-	52,990	13,485	44,945	111,420
Total current liabilities	41,176	2	63,199	19,853	63,832	188,062
Noncurrent liabilities:						
Bonds payable	-	-	273,162	308,251	1,287,623	1,869,036
Compensated absences	647	-	-	-	-	647
Net pension liability	7,652	-	-	-	-	7,652
Net OPEB obligation	1,661	-	-	-	-	1,661
Escrow deposits	608	120	-	-	3,127	3,855
Arbitrage rebate payable	-	-	1,110	-	-	1,110
Total noncurrent liabilities	10,568	120	274,272	308,251	1,290,750	1,883,961
Total liabilities	51,744	122	337,471	328,104	1,354,582	2,072,023
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pension	514	-	-	-	-	514
Total deferred inflows of resources	514	-	-	-	-	514
NET POSITION						
Net investment in capital assets	1,809	-	-	-	-	1,809
Restricted for single family bond program	-	-	189,061	53,046	176,030	418,137
Restricted for grant programs	-	9,310	-	-	-	9,310
Restricted for Homebuyers Revolving Fund	3,153	-	-	-	-	3,153
Restricted for net pension asset	33	-	-	-	-	33
Unrestricted	13,693	63,831	-	-	-	77,524
Total net position	\$ 18,688	\$ 73,141	\$ 189,061	\$ 53,046	\$ 176,030	\$ 509,966

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ -	\$ 44	\$ 22,459	\$ 16,162	\$ 49,298	\$ 87,963
Investment income:						
Interest	71	110	4,863	658	1,617	7,319
Net (decrease) in the fair value of investments	-	(6)	(4,464)	(314)	(792)	(5,576)
Federal grant administration fees	13,784	-	-	-	-	13,784
Fees and other income	3,909	-	-	-	853	4,762
Total operating revenues	17,764	148	22,858	16,506	50,976	108,252
OPERATING EXPENSES						
Salaries and benefits	18,404	-	-	-	-	18,404
Contractual services	5,664	-	-	-	1	5,665
Materials and supplies	1,576	-	-	-	-	1,576
Rentals and insurance	25	-	-	-	-	25
Other administrative expenses	694	-	-	-	-	694
Other program expenses	602	2	3,440	260	969	5,273
Interest expense	10	-	15,401	10,939	30,542	56,892
Mortgage service fees	-	106	1,232	1,196	3,857	6,391
Issuance costs	-	-	-	-	3,602	3,602
Depreciation	350	-	-	-	-	350
Total operating expenses	27,325	108	20,073	12,395	38,971	98,872
Operating income (loss)	(9,561)	40	2,785	4,111	12,005	9,380
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	277,873	-	-	-	-	277,873
Other grant revenue	-	4	-	-	-	4
Federal grants expenses	(277,717)	-	-	-	-	(277,717)
Local grants expenses	(10,506)	-	-	-	-	(10,506)
Total nonoperating revenues (expenses)	(10,350)	4	-	-	-	(10,346)
Income (loss) before transfers	(19,911)	44	2,785	4,111	12,005	(966)
Transfers (to) other funds	-	-	(64,508)	(1,276)	-	(65,784)
Transfers from other funds	17,899	155	-	-	47,730	65,784
Change in net position	(2,012)	199	(61,723)	2,835	59,735	(966)
Total net position, July 1	20,700	72,942	250,784	50,211	116,295	510,932
Total net position, June 30	\$ 18,688	\$ 73,141	\$ 189,061	\$ 53,046	\$ 176,030	\$ 509,966

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ 2,050	\$ 2,725	\$ 125,063	\$ 80,599	\$ 176,128	\$ 386,565
Receipts from federal government	13,867	-	-	-	-	13,867
Receipts from other funds	326	-	225	-	-	551
Other miscellaneous receipts	3,909	-	-	-	853	4,762
Acquisition of mortgage loans	-	(5,052)	(20,848)	-	(299,957)	(325,857)
Payments to service mortgages	-	(106)	(1,232)	(1,196)	(3,857)	(6,391)
Payments to suppliers	(8,271)	(2)	-	-	(924)	(9,197)
Payments to federal government	-	-	(3,684)	-	-	(3,684)
Payments to other funds	-	-	-	-	(551)	(551)
Payments to or for employees	(18,852)	-	-	-	-	(18,852)
Net cash provided (used) by operating activities	(6,971)	(2,435)	99,524	79,403	(128,308)	41,213
Cash flows from non-capital financing activities:						
Operating grants received	300,587	4	-	-	-	300,591
Transfers in (out)	17,898	155	88,447	(1,276)	(105,224)	-
Proceeds from sale of bonds	-	-	-	-	473,792	473,792
Operating grants paid	(285,422)	-	-	-	-	(285,422)
Call premium paid	-	-	-	-	(36)	(36)
Cost of issuance paid	-	-	-	-	(3,602)	(3,602)
Principal payments	-	-	(210,180)	(70,790)	(112,600)	(393,570)
Interest paid	(10)	-	(21,529)	(13,009)	(30,894)	(65,442)
Net cash provided (used) by non-capital financing activities	33,053	159	(143,262)	(85,075)	221,436	26,311
Cash flows from capital and related financing activities:						
Purchases of capital assets	(983)	-	-	-	-	(983)
Net cash used by capital and related financing activities	(983)	-	-	-	-	(983)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	34,940	161,404	37,423	156,115	389,882
Purchases of investments	-	(23,270)	(115,803)	(26,865)	(161,232)	(327,170)
Investment interest received	71	120	5,285	648	1,656	7,780
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	7	54	39	119	219
Net cash provided (used) by investing activities	71	11,797	50,940	11,245	(3,342)	70,711
Net increase in cash and cash equivalents	25,170	9,521	7,202	5,573	89,786	137,252
Cash and cash equivalents, July 1	6,196	11,071	82,854	34,727	96,822	231,670
Cash and cash equivalents, June 30	\$ 31,366	\$ 20,592	\$ 90,056	\$ 40,300	\$ 186,608	\$ 368,922

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (9,561)	\$ 40	\$ 2,785	\$ 4,111	\$ 12,005	\$ 9,380
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	350	-	-	-	-	350
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	232	148	2,235	537	(85)	3,067
(Increase) decrease in mortgage interest receivable	-	-	1,956	456	(2,014)	398
(Increase) in pension asset	(20)	-	-	-	-	(20)
(Increase) in deferred pension outflows	(1,703)	-	-	-	-	(1,703)
(Increase) decrease in mortgage loans receivable	-	(2,041)	79,260	62,946	(171,945)	(31,780)
Decrease in due from federal government	83	-	-	-	-	83
Decrease in interfund receivables	326	-	225	-	-	551
(Decrease) in interfund payables	-	-	-	-	(551)	(551)
Increase (decrease) in accounts payable	1,107	(478)	1,045	758	963	3,395
Increase in accrued payroll / compensated absences	176	-	-	-	-	176
Increase in due to primary government	651	-	-	-	-	651
(Decrease) in arbitrage rebate liability	-	-	(2,984)	-	-	(2,984)
Increase in pension liability	2,223	-	-	-	-	2,223
(Decrease) in deferred pension inflows	(774)	-	-	-	-	(774)
Investment income included as operating revenue	(71)	(104)	(399)	(344)	(825)	(1,743)
Interest expense included as operating expense	10	-	15,401	10,939	30,542	56,892
Issuance cost included as operating expense	-	-	-	-	3,602	3,602
Total adjustments	2,590	(2,475)	96,739	75,292	(140,313)	31,833
Net cash provided (used) by operating activities	\$ (6,971)	\$ (2,435)	\$ 99,524	\$ 79,403	\$ (128,308)	\$ 41,213
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	\$ -	\$ (3)	\$ (834)	\$ (181)	\$ (2,093)	\$ (3,111)
Total noncash investing, capital, and financing activities	\$ -	\$ (3)	\$ (834)	\$ (181)	\$ (2,093)	\$ (3,111)

***UNAUDITED FINANCIAL
INFORMATION***

December 31, 2017

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

	December 31, 2017					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2017
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 5,423	\$ 17,520	\$ 28,762	\$ 25,583	\$ 182,974	\$ 260,262
Investments	-	598	8,360	11,522	29,921	50,401
Receivables:						
Accounts	-	135	-	-	-	135
Interest	-	21	2,194	2,279	7,088	11,582
First mortgage loans	156	2,138	16,314	8,330	34,973	61,911
Due from federal government	37,954	-	-	-	-	37,954
Due from other funds	1,240	-	-	-	1,303	2,543
Prepaid Expenses	1	-	-	-	-	1
Total current assets	44,774	20,412	55,630	47,714	256,259	424,789
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	11,474	-	24,236	361	694	36,765
Investments	-	-	68,768	20,686	47,455	136,909
Investment interest receivable	-	-	692	69	165	926
Investments	-	1,776	-	-	47,518	49,294
First mortgage loans receivable	537	48,730	287,797	280,727	1,310,894	1,928,685
Second mortgage loans receivable	-	-	33,549	-	-	33,549
Allowance for forgivable second mortg	-	-	(9,984)	-	-	(9,984)
Unearned Service Release Premium	219	-	-	-	-	219
Advance to local government	3,130	-	-	-	-	3,130
Net pension asset	33	-	-	-	-	33
Capital assets:						
Furniture and equipment	3,565	-	-	-	-	3,565
Less accumulated depreciation	(1,756)	-	-	-	-	(1,756)
Total noncurrent assets	17,202	50,506	405,058	301,843	1,406,726	2,181,335
Total assets	61,976	70,918	460,688	349,557	1,662,985	2,606,124
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	235	-	640	875
Deferred outflows related to pensions	3,864	-	-	-	-	3,864
Total deferred outflows of resources	3,864	-	235	-	640	4,739
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 7,026	\$ 12	\$ 1,182	\$ 851	\$ 32	\$ 9,103
Accrued payroll and related liabilities	178	-	-	-	-	178
Compensated absences	667	-	-	-	-	667
Interest payable	-	-	5,035	4,873	21,105	31,013
Escrow deposits	545	-	-	-	-	545
Prepayments on mortgage loans	-	-	158	130	796	1,084
Due to federal government	26,530	-	-	-	-	26,530
Due to other funds	-	-	2,543	-	-	2,543
Bonds payable	-	-	30,170	13,865	49,025	93,060
Total current liabilities	34,946	12	39,088	19,719	70,958	164,723
Noncurrent liabilities:						
Bonds payable	-	-	230,193	275,675	1,406,333	1,912,201
Compensated absences	647	-	-	-	-	647
Net pension liability	7,652	-	-	-	-	7,652
Net OPEB obligation	1,661	-	-	-	-	1,661
Escrow deposits	731	120	-	-	3,804	4,655
Arbitrage rebate payable	-	-	1,110	-	-	1,110
Total noncurrent liabilities	10,691	120	231,303	275,675	1,410,137	1,927,926
Total liabilities	45,637	132	270,391	295,394	1,481,095	2,092,649
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	514	-	-	-	-	514
Total deferred inflows of resources	514	-	-	-	-	514
NET POSITION						
Net investment in capital assets	1,809	-	-	-	-	1,809
Restricted for single family bond progra	-	-	190,532	54,163	182,530	427,225
Restricted for grant programs	-	8,886	-	-	-	8,886
Restricted for Homebuyers Revolving L	3,153	-	-	-	-	3,153
Restricted for pension asset	33	-	-	-	-	33
Unrestricted	14,694	61,900	-	-	-	76,594
Total net position	\$ 19,689	\$ 70,786	\$ 190,532	\$ 54,163	\$ 182,530	\$ 517,700

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Six Months Ended December 31, 2017

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2017
OPERATING REVENUES						
Mortgage interest income	\$ 10	\$ 5	\$ 7,883	\$ 6,890	\$ 29,492	\$ 44,280
Investment income:						
Interest	70	74	1,371	356	1,409	3,280
Net increase (decrease) in the fair value of investments	-	15	(1,047)	(184)	(648)	(1,864)
Federal grant administration fees	7,453	-	-	-	-	7,453
Fees and other income	3,667	-	-	-	822	4,489
Total operating revenues	11,200	94	8,207	7,062	31,075	57,638
OPERATING EXPENSES						
Salaries and benefits	9,927	-	-	-	-	9,927
Contractual services	2,744	-	-	-	37	2,781
Materials and supplies	369	-	-	-	-	369
Rentals and insurance	5	-	-	-	-	5
Other administrative expenses	344	-	-	-	-	344
Other program expenses	235	-	402	98	497	1,232
Interest expense	-	-	4,908	4,710	18,992	28,610
Mortgage service fees	-	65	375	514	2,277	3,231
Issuance costs	-	-	-	-	364	364
Total operating expenses	13,624	65	5,685	5,322	22,167	46,863
Operating income (loss)	(2,424)	29	2,522	1,740	8,908	10,775
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	146,227	-	-	-	-	146,227
Federal grants expenses	(146,206)	-	-	-	-	(146,206)
Local grants expenses	(3,062)	-	-	-	-	(3,062)
Total nonoperating revenues (expenses)	(3,041)	-	-	-	-	(3,041)
Income (loss) before transfers	(5,465)	29	2,522	1,740	8,908	7,734
Transfers (to) other funds	-	(2,384)	(1,051)	(623)	(2,408)	(6,466)
Transfers from other funds	6,466	-	-	-	-	6,466
Change in net position	1,001	(2,355)	1,471	1,117	6,500	7,734
Total net position, July 1	18,688	73,141	189,061	53,046	176,030	509,966
Total net position, End of period	\$ 19,689	\$ 70,786	\$ 190,532	\$ 54,163	\$ 182,530	\$ 517,700

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Six Months Ended December 31, 2017

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2017
Cash flows from operating activities:						
Receipts from customers	\$ -	\$ 1,622	\$ 39,190	\$ 38,036	\$ 106,566	\$ 185,414
Receipts from federal government	7,537	-	-	-	-	7,537
Receipts from other funds	623	-	253	-	-	876
Other miscellaneous receipts	3,667	-	-	-	822	4,489
Acquisition of mortgage loans	-	(2,345)	(4,250)	-	(193,604)	(200,199)
Payments of Service Release Premiums	(219)	-	-	-	-	(219)
Payments to service mortgages	-	(65)	(375)	(514)	(2,277)	(3,231)
Payments to suppliers	(1,539)	-	(441)	(26)	(552)	(2,558)
Payments to other funds	-	-	-	-	(876)	(876)
Payments to or for employees	(10,577)	-	-	-	-	(10,577)
Net cash provided (used) by operating activities	(508)	(788)	34,377	37,496	(89,921)	(19,344)
Cash flows from non-capital financing activities:						
Operating grants received	136,604	-	-	-	-	136,604
Transfers in (out)	6,466	(2,384)	11,026	(623)	(14,485)	-
Proceeds from sale of bonds	-	-	-	-	204,954	204,954
Operating grants paid	(157,101)	-	-	-	-	(157,101)
Call premium paid	-	-	(14)	-	-	(14)
Cost of issuance paid	-	-	-	-	(364)	(364)
Principal payments	-	-	(65,380)	(31,795)	(79,640)	(176,815)
Interest paid	-	-	(6,744)	(5,651)	(18,387)	(30,782)
Net cash provided (used) by non-capital financing activities	(14,031)	(2,384)	(61,112)	(38,069)	92,078	(23,518)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	14,987	28,296	9,905	70,652	123,840
Purchases of investments	-	(14,974)	(40,127)	(24,062)	(77,215)	(156,378)
Investment interest received	70	74	1,448	335	1,290	3,217
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	13	60	39	176	288
Net cash (used) by investing activities	70	100	(10,323)	(13,783)	(5,097)	(29,033)
Net (decrease) in cash and cash equivalents	(14,469)	(3,072)	(37,058)	(14,356)	(2,940)	(71,895)
Cash and cash equivalents, July 1	31,366	20,592	90,056	40,300	186,608	368,922
Cash and cash equivalents, End of period	\$ 16,897	\$ 17,520	\$ 52,998	\$ 25,944	\$ 183,668	\$ 297,027

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Six Months Ended December 31, 2017

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2017
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (2,424)	\$ 29	\$ 2,522	\$ 1,740	\$ 8,908	\$ 10,775
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Changes in assets and liabilities:						
Decrease in accounts receivable	-	76	-	-	782	858
(Increase) decrease in mortgage interest receivable	1	(3)	367	280	(680)	(35)
(Increase) decrease in mortgage loans receivable	-	(812)	26,591	30,779	(117,999)	(61,441)
Decrease in due from federal government	84	-	-	-	-	84
Decrease in interfund receivables	623	-	253	-	-	876
(Decrease) in interfund payables	-	-	-	-	(876)	(876)
Increase in accounts payable	2,674	11	60	159	1,349	4,253
(Decrease) in unearned service release premium	(219)	-	-	-	-	(219)
(Decrease) in accrued payroll / compensated absences	(454)	-	-	-	-	(454)
(Decrease) in due to primary government	(723)	-	-	-	-	(723)
Investment income included as operating revenue	(70)	(89)	(324)	(172)	(761)	(1,416)
Interest expense included as operating expense	-	-	4,908	4,710	18,992	28,610
Issuance cost included as operating expense	-	-	-	-	364	364
Total adjustments	<u>1,916</u>	<u>(817)</u>	<u>31,855</u>	<u>35,756</u>	<u>(98,829)</u>	<u>(30,119)</u>
Net cash provided (used) by operating activities	<u>\$ (508)</u>	<u>\$ (788)</u>	<u>\$ 34,377</u>	<u>\$ 37,496</u>	<u>\$ (89,921)</u>	<u>\$ (19,344)</u>
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	-	(11)	(1,064)	(226)	(1,017)	(2,318)
Total noncash investing, capital, and financing activities	<u>\$ -</u>	<u>\$ (11)</u>	<u>\$ (1,064)</u>	<u>\$ (226)</u>	<u>\$ (1,017)</u>	<u>\$ (2,318)</u>

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS AND SERVICERS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the "Working Agreements"). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA's security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA's rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent's privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the "O. A. Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA currently has an agreement with U.S. Bank (the "Servicer") to service Program Loans (the "Servicing Agreement"). U.S. Bank services approximately 90% of THDA's entire portfolio of mortgage loans made or purchased with bond proceeds. The Servicing Agreement provides for the collection and remittance of Program Loan payments to THDA or a designated depository. Prior to remittance, the Servicer deducts a servicing fee, late charges and amounts to be held in escrow accounts for real property taxes, mortgage and hazard insurance premiums, and assessments. The servicing fee under the current Servicing Agreement is 3/8% annually. The Servicer is required to notify THDA in the event of any default on a Program Loan, and the Servicer may conduct foreclosure proceedings with the consent and at the expense of THDA. The Servicer is required to repurchase any Program Loan from THDA at any time THDA

suffers or is threatened with a material loss by reason of the Servicer's failure to perform its obligations under the Servicing Agreement. THDA may also terminate a Servicing Agreement for inadequate performance by the Servicer.

THDA began self-servicing the mortgage loan portfolio previously serviced by Pinnacle Bank through a division of THDA called Volunteer Mortgage Loan Servicing ("VMLS"). VMLS began servicing the former Pinnacle Bank portion of the THDA mortgage loan portfolio as of November 1, 2016. THDA began servicing new production loans from its largest Originating Agent as of October 1, 2017. THDA is providing notice to all Originating Agents about delivering new THDA loans to VMLS for servicing in accordance with a schedule that THDA anticipates will result in all new THDA loans being serviced by THDA on or about June 1, 2018. THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule.

Guide for Servicers

THDA provides each Servicer with a Guide for Servicers (the "Servicer Guide"), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax requirements. The Servicer Guide includes substantive servicing requirements, incorporates the limitation on assumption of mortgages contained in the federal tax code, and specifies the procedures to be followed by the Servicer to comply with THDA requirements and the federal tax code. The Servicer Guide also includes a list of the documents that must be maintained by the Servicer, copies of all THDA's servicing and loan assumption forms, together with instructions for their completion and a schedule for the submission of the required forms and reports to THDA.

THDA requires monthly reports from Servicers. Each Servicer's performance is monitored and its servicing record is subject to examination by THDA's staff. Examinations are performed monthly from documentation received from the Servicer.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the “General Residential Finance Program Bond Resolution.”

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

“*Account*” means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

“*Accountant*” means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

“*Act*” means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

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

“*Authorized Officer*” means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

“*Bond*” or “*Bonds*” means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

“*Bond Counsel's Opinion*” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

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

“*Bond Reserve Fund*” means the Bond Reserve Fund established pursuant to Section 5.1.

“*Bond Reserve Fund Requirement*” means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

“*Code*” means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

(1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;

(2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

"Program Security" means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

"Projected Cash Flow Statement" means a Certificate delivered pursuant to the provisions of Section 7.11.

"Rating Agency" means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody's and S&P.

"Redemption Account" means the Redemption Account which is established and created in the Revenue Fund pursuant to this Resolution.

"Redemption Date" means the date upon which Bonds are to be called for redemption pursuant to this Resolution.

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

"Refunding Bond" means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

"Resolution" means this Resolution and any amendments or supplements made in accordance with its terms.

"Revenue Fund" means the Revenue Fund established pursuant to Section 5.1.

"Revenues" means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

"S&P" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, and any successor.

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

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

"State" means the State of Tennessee.

"Supplemental Resolution" means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

"THDA" means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

"Trustee" means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI
REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII

PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

(1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or

(2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or

(3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of or Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI

CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$823,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

Amount

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Outstanding as of March 31, 2018 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A	December 23, 2009	\$ 100,000,000	\$ --	\$ 9,065,000	3.96%
2010-A/ 2009-B, Subseries B-1	June 17, 2010	74,710,000	85,290,000	13,055,000	3.85
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	42,420,000	3.15
2011-A/ 2009-B, Subseries B-3	April 14, 2011	40,000,000	60,000,000	12,795,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	47,640,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,850,000	34,710,000	44,615,000	3.01
Issue 2015-A	May 28, 2015	<u>163,850,000</u>	--	<u>102,830,000</u>	2.78
TOTAL		<u>\$ 523,850,000</u>	<u>\$ 300,000,000</u>	<u>\$ 272,420,000</u>	

(1) Bond yield.

As of March 31, 2018 (unaudited), 3,071 mortgage loans in the approximate aggregate principal amount of \$256,891,705 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$617,690,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of March 31, 2018 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-1 ⁽²⁾	June 11, 2009	\$ 50,000,000	\$ 13,630,000 ⁽²⁾	4.39
2009-2	September 30, 2009	75,000,000	18,060,000	4.06
2010-1	October 13, 2010	120,700,000	35,635,000	3.57
2011-1	December 1, 2011	141,255,000	55,380,000	3.80
2012-1	July 19, 2012	133,110,000	61,795,000	3.26
2012-2	November 15, 2012	97,625,000	47,960,000	2.92
TOTAL		<u>\$ 617,690,000</u>	<u>\$ 232,460,000</u>	

(1) Bond yield.

(2) To be refunded with proceeds of the Issue 2018-2 Bonds.

As of March 31, 2018 (unaudited), 5,157 mortgage loans in the approximate aggregate principal amount of \$261,969,672 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets relating to bond proceeds, including mortgage loans, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution. Certain assets and investments not related to bond proceeds remain in the General Fund of the 1974 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. THDA established eligibility requirements for the mortgage credit certificate program and loans assisted with a mortgage credit certificate may not be funded with proceeds of qualified mortgage bonds such as the Issue 2018-2 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets, other than its mortgage assets (the “non-mortgage assets”). These non-mortgage assets are invested only in investments authorized by the Act, THDA’s investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA’s investment of THDA non-mortgage assets to the Executive Director of THDA.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bonds certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds certificates will be printed and delivered.

RESIDENTIAL FINANCE PROGRAM LOAN PROCEDURES**General**

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2018-2 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

THDA's current income limits range from \$57,480 to \$96,180 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

U.S. Bank currently services approximately 90% of THDA's mortgage loan portfolio. THDA began self-servicing the mortgage loan portfolio previously serviced by Pinnacle Bank through a division of THDA called Volunteer Mortgage Loan Servicing ("VMLS"). VMLS began servicing the former Pinnacle Bank portion of the THDA mortgage loan portfolio as of November 1, 2016. THDA is in the process of having servicing for new production loans delivered by Originating Agents to VMLS. THDA anticipates that all Originating Agents will be delivering servicing for new production loans to VMLS on or before June 1, 2018. THDA anticipates acquiring servicing rights for the portfolio currently serviced by U.S. Bank over time and in accordance with an agreed upon schedule. As of December 31, 2017, VMLS is servicing less than 10.0% of all THDA mortgage loans.

THDA requires regular reports from Servicers updating the total number of Program Loans serviced and providing certain information for each Program Loan including, without limitation, delinquency and foreclosure data. THDA's agreements with Servicers (the "Servicing Agreements") provide for the collection and remittance of Program Loan payments to THDA or a designated depository. The Servicers' records relating to serviced Program Loans are subject to examination by THDA's Single Family and Internal Audit Divisions.

THDA provides each Servicer with a Guide for Servicers which sets forth complete requirements and procedures for servicing Program Loans. THDA may terminate any Servicing Agreement when there is inadequate performance by the Servicer. THDA may also require that a Servicer purchase any Program Loan from THDA at any time THDA suffers or is threatened with a material loss by reason of a Servicer's failure to perform its obligations with respect to the Program Loans under the Servicing Agreement. For information about Servicing Agreements and substantive requirements relating to servicing Program Loans, see Appendix C.

June 12, 2018

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$160,000,000 Issue 2018-2 (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$160,000,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2018-2 (Non-AMT) (the "Issue 2018-2 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2018-2 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on March 27, 2018, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on May 8, 2018 (together, the "Supplemental Resolution," and, together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2018-2 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2018-2 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2018-2 Bonds are being issued to refund certain outstanding obligations of THDA and to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2018-2 Bonds in order that interest on the Issue 2018-2 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2018-2 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.
2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.

3. The Issue 2018-2 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2018-2 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2018-2 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.

6. The Issue 2018-2 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.

7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2018-2 Bonds is excluded from gross income of the owners thereof for federal income tax purposes; (ii) interest on the Issue 2018-2 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on the Issue 2018-2 Bonds will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code. No federal alternative minimum tax applies to corporations for tax years beginning after December 31, 2017.

8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2018-2 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2018-2 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2018-2 Bonds may have to take interest on such Issue 2018-2 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2018-2 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2018-2 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2018-2 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES**Delinquencies and Foreclosures as of December 31, 2017*

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.08%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	252	\$ 24,174,120	2.15%	1.24% ⁽⁴⁾
VA Guaranteed	4	245,240	1.47	0.82
Privately Insured	14	1,165,763	1.51	0.76
USDA/RD Guaranteed.....	21	1,298,996	2.69	⁽⁵⁾
Uninsured.....	3	147,257	0.67	⁽⁵⁾
TOTAL	<u>294</u>	<u>\$ 27,031,376⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.44%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	628	\$ 56,810,693	5.36%	1.85% ⁽⁴⁾
VA Guaranteed	18	1,132,198	6.62	1.32
Privately Insured	67	4,094,874	7.22	1.13
USDA/RD Guaranteed.....	43	2,890,156	5.50	⁽⁵⁾
Uninsured.....	14	820,178	3.13	⁽⁵⁾
TOTAL	<u>770</u>	<u>\$ 65,748,099⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bond issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding loans financed pursuant to the 1974 General Resolution that were transferred to the General Resolution as of June 30, 2014.

The overall rate of Program Loans in foreclosure was 0.33%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of December 31, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2017, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	40	\$ 3,982,561	0.34%	0.51% ⁽⁴⁾
VA Guaranteed	1	117,136	0.37	0.81
Privately Insured	4	463,572	0.43	0.40
USDA/RD Guaranteed.....	2	156,928	0.26	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	47	\$ 4,720,196 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of September 30, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.93%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	223	\$ 22,374,473	2.00%	1.38% ⁽⁴⁾
VA Guaranteed	2	157,772	0.76	0.80
Privately Insured	13	984,104	1.38	0.71
USDA/RD Guaranteed.....	17	1,150,950	2.21	(5)
Uninsured.....	7	473,226	1.60	(5)
TOTAL	262	\$ 25,140,524 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.24%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	560	\$ 49,491,381	5.02%	1.92% ⁽⁴⁾
VA Guaranteed	20	1,301,089	7.60	1.31
Privately Insured	71	4,883,975	7.55	0.16
USDA/RD Guaranteed.....	46	3,324,364	5.99	(5)
Uninsured.....	13	629,014	2.97	(5)
TOTAL	<u>710</u>	<u>\$ 59,629,823⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.53%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2017 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2017, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	62	\$ 6,276,684	0.56%	0.43% ⁽⁴⁾
VA Guaranteed	2	273,802	0.76	0.80
Privately Insured	5	517,833	0.53	0.41
USDA/RD Guaranteed.....	3	240,117	0.39	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>72</u>	<u>\$ 7,308,436⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of June 30, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.43%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	152	\$ 14,659,035	1.43%	0.91% ⁽⁴⁾
VA Guaranteed	1	111,713	0.38	0.72
Privately Insured	11	888,734	1.11	0.65
USDA/RD Guaranteed.....	18	1,232,049	2.34	⁽⁵⁾
Uninsured.....	5	295,682	1.17	⁽⁵⁾
TOTAL	<u>187</u>	<u>\$ 17,187,214⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.00%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	515	\$ 44,653,653	4.84%	1.82% ⁽⁴⁾
VA Guaranteed	19	1,319,090	7.31	1.15
Privately Insured	67	4,729,147	6.76	1.09
USDA/RD Guaranteed.....	39	2,900,018	5.07	⁽⁵⁾
Uninsured.....	14	783,463	3.29	⁽⁵⁾
TOTAL	<u>654</u>	<u>\$ 54,385,371⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.58%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of June 30, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2017, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	65	\$ 6,790,161	0.61%	0.58% ⁽⁴⁾
VA Guaranteed	2	273,802	0.77	0.84
Privately Insured	5	507,538	0.50	0.40
USDA/RD Guaranteed.....	4	287,204	0.52	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL.....	76	\$ 7,858,705 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of March 31, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.09%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	114	\$ 10,187,275	1.14%	0.98% ⁽⁴⁾
VA Guaranteed	1	17,443	0.40	0.59
Privately Insured	7	613,914	0.89	0.63
USDA/RD Guaranteed.....	8	587,777	1.09	(5)
Uninsured.....	2	126,407	0.51	(5)
TOTAL.....	132	\$ 11,532,816 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.04%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	492	\$ 42,478,597	4.93%	1.90% ⁽⁴⁾
VA Guaranteed	19	1,183,231	7.54	1.21
Privately Insured	49	3,494,152	6.23	1.22
USDA/RD Guaranteed.....	38	2,671,286	5.18	(5)
Uninsured.....	14	798,014	3.54	(5)
TOTAL	612	\$ 50,625,281 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.74%, based on a total of 12,152 Program Loans as of March 31, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2017, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	77	\$ 7,804,398	0.77%	0.59% ⁽⁴⁾
VA Guaranteed	3	376,556	1.19	0.90
Privately Insured	5	483,014	0.64	0.46
USDA/RD Guaranteed.....	5	376,443	0.68	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	90	\$ 9,040,411 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.



Tennessee Housing
Development Agency

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2018-3 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that interest on the Issue 2018-3 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"). In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2018-3 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2018-3 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY**Residential Finance Program Bonds****\$149,900,000 Issue 2018-3 (Non-AMT)****Dated: Date of Delivery****Due: As shown on inside front cover**

The Issue 2018-3 Bonds (the "Issue 2018-3 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on January 1, 2019, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about September 6, 2018.

CITIGROUP**RAYMOND JAMES****RBC CAPITAL MARKETS****J.P. MORGAN WELLS FARGO SECURITIES****J.J.B. HILLIARD, W.L. LYONS, LLC**

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$149,900,000 Issue 2018-3 (Non-AMT)

\$28,055,000 Serial Bonds						
Year	Principal Amount Due January 1	Interest Rate	CUSIP Number⁽¹⁾	Principal Amount Due July 1	Interest Rate	CUSIP Number⁽¹⁾
2019		%		\$ 785,000	1.50 %	880461UU0
2020	\$ 940,000	1.65	880461UV8	980,000	1.75	880461UW6
2021	990,000	1.90	880461UX4	1,000,000	2.00	880461UY2
2022	1,015,000	2.05	880461UZ9	1,025,000	2.15	880461VA3
2023	1,040,000	2.20	880461VB1	1,050,000	2.25	880461VC9
2024	1,065,000	2.35	880461VD7	1,080,000	2.40	880461VE5
2025	1,095,000	2.55	880461VF2	1,115,000	2.65	880461VG0
2026	1,125,000	2.80	880461VH8	1,145,000	2.85	880461VJ4
2027	1,165,000	2.90	880461VK1	1,185,000	2.90	880461VL9
2028	1,205,000	3.00	880461VM7	1,225,000	3.00	880461VN5
2029	1,245,000	3.05	880461VP0	1,270,000	3.05	880461VQ8
2030	1,290,000	3.20	880461VR6	1,315,000	3.20	880461VS4
2031	1,340,000	3.30	880461VT2	1,365,000	3.30	880461VU9

\$121,845,000 Term Bonds			
Maturity Date	Principal Amount Due	Interest Rate	CUSIP Number⁽¹⁾
July 1, 2033	\$ 5,740,000	3.45 %	880461VV7
July 1, 2038	16,540,000	3.75	880461VW5
July 1, 2043	20,335,000	3.85	880461VX3
January 1, 2049	26,830,000	3.95	880461VY1
July 1, 2049 (PAC)	52,400,000	4.25	880461VZ8

PRICE OF ISSUE 2018-3 BONDS DUE JULY 1, 2049 (PAC): 107.219%

PRICE OF ALL REMAINING ISSUE 2018-3 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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CSG ADVISORS INCORPORATED
Financial Advisor

OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY
Residential Finance Program Bonds
\$149,900,000 Issue 2018-3 (Non-AMT)

INTRODUCTION

This Official Statement (the “Official Statement”) provides certain information in connection with the issuance by the Tennessee Housing Development Agency (“THDA”) of its Residential Finance Program Bonds, Issue 2018-3 in the aggregate principal amount of \$149,900,000 (the “Issue 2018-3 Bonds” or the “Offered Bonds”).

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the “Act”). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the “General Resolution” or the “2013 General Resolution”) and by a Resolution adopted by THDA on May 22, 2018, as amended and supplemented by the Bond Finance Committee of THDA (the “Bond Finance Committee”) on August 7, 2018 (the “Issue 2018-3 Supplemental Resolution”). The General Resolution and the Issue 2018-3 Supplemental Resolution are herein collectively referred to as the “Resolution.”

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2018-3 Bonds on May 21, 2018.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of June 30, 2018 (unaudited), Bonds in the aggregate principal amount of \$1,607,175,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$260,390,000 were outstanding under THDA’s Housing Finance Program Resolution (the “2009 General Resolution”), and bonds in the aggregate principal amount of \$221,460,000 were outstanding under THDA’s Homeownership Program Resolution (the “1985 General Resolution”). No bonds are outstanding under THDA’s Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”). For more information see “Other Financings—Housing Bond Resolution (Mortgage Finance Program)” in Appendix E.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption “SECURITY AND SOURCES OF PAYMENT OF BONDS”. All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the “Bonds”. The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the “Public Pledge Act”). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee’s codification of Article 9 of the Uniform Commercial Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to

whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects that the proceeds of the Issue 2018-3 Bonds will be used to: (i) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (ii) pay capitalized interest, if any; (iii) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (iv) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix G.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" refers to new Program Loans (including participations therein) financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2018-3 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA does not intend to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance. While the Issue 2018-3 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of May 31, 2018 (unaudited), 14,834 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$1,471,053,299. Based on the outstanding principal balance of Program Loans as of May 31, 2018 (unaudited), approximately 87.22% were FHA insured, approximately 1.84% were VA guaranteed, approximately 4.77% were insured by private mortgage insurance companies, approximately 4.08% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.08% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See "RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data" and Appendix B under the heading "Private Mortgage Insurance Programs".

U.S. Bank National Association (the "Trustee") is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2018-3 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2018-3 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D "2013 GENERAL RESOLUTION". Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, ("DTC"), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F "BOOK-ENTRY-ONLY SYSTEM" for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2018-3 Bonds and is payable on January 1, 2019, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2018-3 Bonds maturing on July 1, 2033, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2032, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2018-3 Term Bonds Due July 1, 2033

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2032	\$ 1,390,000	\$ 1,420,000
2033	1,450,000	1,480,000 (maturity)

The Issue 2018-3 Bonds maturing on July 1, 2038, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2034, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2018-3 Term Bonds Due July 1, 2038

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2034	\$ 1,505,000	\$ 1,540,000
2035	1,570,000	1,600,000
2036	1,635,000	1,670,000
2037	1,700,000	1,735,000
2038	1,775,000	1,810,000 (maturity)

The Issue 2018-3 Bonds maturing on July 1, 2043, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2039, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2018-3		
Term Bonds Due July 1, 2043		
<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2039	\$ 1,850,000	\$ 1,885,000
2040	1,925,000	1,965,000
2041	2,010,000	2,050,000
2042	2,095,000	2,140,000
2043	2,185,000	2,230,000 (maturity)

The Issue 2018-3 Bonds maturing on January 1, 2049, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2044, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2018-3		
Term Bonds Due January 1, 2049		
<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2044	\$ 2,280,000	\$ 2,325,000
2045	2,380,000	2,425,000
2046	2,480,000	2,530,000
2047	2,590,000	2,645,000
2048	2,700,000	2,760,000
2049	1,715,000 (maturity)	

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The Issue 2018-3 Bonds maturing on July 1, 2049 (the “PAC Bonds”), are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2019, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2018-3
PAC Term Bonds Due July 1, 2049**

Year	Amount Due January 1	Amount Due July 1
2019		\$ 430,000
2020	\$ 435,000	445,000
2021	455,000	465,000
2022	475,000	485,000
2023	495,000	505,000
2024	515,000	530,000
2025	540,000	550,000
2026	565,000	575,000
2027	585,000	600,000
2028	610,000	625,000
2029	640,000	650,000
2030	665,000	680,000
2031	695,000	710,000
2032	725,000	740,000
2033	755,000	770,000
2034	790,000	805,000
2035	820,000	840,000
2036	855,000	875,000
2037	895,000	915,000
2038	930,000	950,000
2039	970,000	995,000
2040	1,015,000	1,035,000
2041	1,055,000	1,080,000
2042	1,105,000	1,125,000
2043	1,150,000	1,175,000
2044	1,200,000	1,225,000
2045	1,250,000	1,280,000
2046	1,305,000	1,335,000
2047	1,360,000	1,370,000
2048	1,400,000	1,430,000
2049	1,460,000	1,490,000 (maturity)

Optional Redemption. The Issue 2018-3 Bonds maturing on and after January 1, 2028, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after July 1, 2027, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2018-3 Principal Payments (as defined below). Any Excess 2018-3 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing January 1, 2019; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2018-3 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds are equal to or less than 400% PSA (as defined below under “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds”), as determined by THDA, then available Excess 2018-3 Principal Payments shall first be applied to redeem PAC Bonds up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds and, subject to

the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds are in excess of 400% PSA, as determined by THDA, then available Excess 2018-3 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds shall first be applied to redeem PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an “Excess Principal PAC Bond Redemption”); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2018-3 Principal Payments which is in excess of 400% PSA, and (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds’ proportionate amount of all Issue 2018-3 Bonds then Outstanding.

“Excess 2018-3 Principal Payments” means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

“Planned Amortization Amount” means the dollar amount applicable to the PAC Bonds for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the PAC Bonds assumed to be redeemed from Excess 2018-3 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds. See “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds” for a description of PSA prepayment rates.

The Planned Amortization Amounts for the PAC Bonds (which assume the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedules

<u>Date</u>	<u>PAC Bonds Planned Amortization Amount</u>
January 1, 2019	\$ 195,000
July 1, 2019	940,000
January 1, 2020	2,460,000
July 1, 2020	4,870,000
January 1, 2021	8,085,000
July 1, 2021	12,020,000
January 1, 2022	16,135,000
July 1, 2022	20,175,000
January 1, 2023	24,040,000
July 1, 2023	27,740,000
January 1, 2024	31,270,000
July 1, 2024	34,635,000
January 1, 2025	37,840,000
July 1, 2025	40,885,000
January 1, 2026	43,785,000
July 1, 2026	46,535,000
January 1, 2027	49,135,000
July 1, 2027	51,595,000
January 1, 2028	52,400,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the PAC Bonds are redeemed from amounts on deposit in the Issue 2018-3 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds.”

Special Optional Redemption of the Offered Bonds, including Cross Calls. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading “DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds”; (ii) except as otherwise described under the headings “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and “ – Mandatory Redemption – 10 Year Rule”, repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, “Code”), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and (b) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bonds to exceed the Planned Amortization Amount shown above in the PAC Bonds Amortization Schedule. The Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph. See “ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments” and “ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices”.

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof financed with proceeds of the Offered Bonds (directly, or through a series of refundings) shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the related Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedule only if there are no other Offered Bonds outstanding.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans (or portions thereof) financed with proceeds of the Offered Bonds in accordance with the following approximate 10 year rule percentages to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Commencement Date</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
September 6, 2018	0.00%
September 6, 2028	100.00%

THDA will redeem the Offered Bonds in accordance with this schedule to the extent required to comply with the Code. THDA reserves the right to modify this schedule at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory redemption on July 1, 2019, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2018-3 Bonds Subaccount of the Loan Fund on June 1, 2019, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2018-3 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on March 1, 2022, to the extent any amounts remain on deposit in the Issue 2018-3 Bonds Subaccount of the Loan Fund on February 1, 2022.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding.

Selection By Lot

If less than all of the Issue 2018-3 Bonds of like maturity are to be redeemed, the particular Issue 2018-3 Bonds of such maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

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APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2018-3 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 149,900,000.00
Premium on PAC Bonds	3,782,756.00
THDA Contribution	2,500,000.00
TOTAL SOURCES	<u>\$ 156,182,756.00</u>

USES

Deposit to Loan Fund	\$ 149,900,000.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,000,000.00
Deposit to Bond Reserve Fund	4,141,986.71
Costs of Issuance	227,500.00
Underwriters' Fee	913,269.29
TOTAL SOURCES	<u>\$ 156,182,756.00</u>

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest

Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumptions that THDA originates approximately \$149,900,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 4.61%. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2018-3 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the

issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA, including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See “RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans” for descriptions of the various Program Loan products and Appendix G “RESIDENTIAL FINANCE PROGRAM LOAN ORIGINATING AND SERVICING PROCEDURES” for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2018-3 Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 4.61% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2018-3 Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2018-3 Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on June 19, 2018. As of July 26, 2018, THDA has committed a total principal amount of approximately \$72,562,215 of Program Loans and purchased approximately \$18,300,000 outstanding principal balance of loans, all of which are Great Choice Program Loans and Homeownership for the Brave Program Loans that will be allocated to the Offered Bonds. See “RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans”. Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

The United States Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) in 2010, and may pass additional legislation impacting the origination and servicing of mortgage loans. Likewise, the Tennessee General Assembly may enact legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA's single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA's activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA's single-family loans could adversely affect the THDA's ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D "2013 GENERAL RESOLUTION"), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds," "- Special Optional Redemption of the Offered Bonds, including Cross Calls" and "- Mandatory Redemption – 10-Year Rule".

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See "DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds."

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA's general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA's current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA's determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D "2013 GENERAL RESOLUTION" for a description of Program Expenses. THDA expects to use funds on deposit in the

Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters' fees, initial Trustee's fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see "THDA – THDA Funds". THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum; and (iii) funds on deposit in the Issue 2018-3 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term "weighted average life" refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term "prepayment" includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association ("PSA")) prepayment standard or model (commonly referred to as the "PSA Prepayment Model").

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, "0% PSA" assumes no prepayments of principal on the Program Loans. "25% PSA" assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. "50% PSA" assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. "75% PSA" assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. "100% PSA" assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. "200% PSA" assumes the principal of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. "300% PSA" assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. "400% PSA" assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. "500% PSA" assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors' housing needs, job transfers, unemployment and mortgagors' net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under "Changes in Federal or State Law" above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading "DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds", and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2018-3 Bond Subaccount of the Loan Fund is applied to finance Program Loans, (ii) Excess 2018-3 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iii) the PAC Bonds will be redeemed only in the Planned Amortization Amounts as described under the heading "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds" and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>PAC Bond Average Life (in years)</u>
0%	18.7
25	13.1
50	8.2
75	6.1
100	5.0
200	5.0
300	5.0
400	5.0
500	4.7

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RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

As of June 30, 2018, THDA has issued \$2,008,905,000 total original principal amount of bonds under the General Resolution, of which \$1,607,175,000 (unaudited) were outstanding as of June 30, 2018, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of June 30, 2018 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$ 98,530,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	67,335,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	89,825,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	106,210,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	117,920,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	142,270,000	3.25
Issue 2016-1	May 18, 2016	125,000,000	109,900,000	2.68
Issue 2016-2	October 18, 2016	125,000,000	113,680,000	2.68
Issue 2016-3	November 17, 2016	62,000,000	44,045,000	2.97
Issue 2017-1	March 30, 2017	100,000,000	94,125,000	3.15
Issue 2017-2	June 27, 2017	175,000,000	164,465,000	2.94
Issue 2017-3	September 28, 2017	99,900,000	99,070,000	3.03
Issue 2017-4	December 19, 2017	99,900,000	99,900,000	2.90
Issue 2018-1	March 29, 2018	99,900,000	99,900,000	3.33
Issue 2018-2	June 12, 2018	160,000,000	160,000,000	3.37
TOTAL		<u>\$ 2,008,905,000</u>	<u>\$ 1,607,175,000</u>	

(1) Bond yield.

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Origination Experience

THDA's experience from May 30, 2013, to June 30, 2018 (unaudited), regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

Issue of Bonds	Lendable Proceeds ⁽²⁾	Program Loans Financed ⁽³⁾ as of June 30, 2018		Weighted Average Interest Rate ⁽⁴⁾
		Amount	%	
Issue 2013-1	\$ 135,268,395	\$ 135,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	92,340,000	92,340,000	100.00	3.98
Issue 2016-2	91,685,000	91,685,000	100.00	3.87
Issue 2017-1	102,200,000	102,200,000	100.00	4.15
Issue 2017-2	128,090,000	128,090,000	100.00	4.61
Issue 2017-3	90,500,000	90,500,000	100.00	4.62
Issue 2017-4	75,660,000	75,660,000	100.00	4.40
Issue 2018-1	102,600,000	102,600,000	100.00	4.39
Issue 2018-2	143,525,000	109,916,737	76.58	4.61
TOTAL	\$ 1,537,668,875	\$ 1,504,060,453		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on June 19, 2018, and as of July 26, 2018, THDA has committed a total principal amount of approximately \$72,562,215 of Program Loans and purchased approximately \$18,300,000 outstanding principal balance of loans, that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. The THDA Household Income Limits range from \$60,900 to \$104,860 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2018-3 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance

or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance. While the Issue 2018-3 Supplemental Resolution provides that Program Loans, or participations therein, to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. On and after October 1, 2013, the THDA primary loan program has included Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. Since October 1, 2013, THDA has provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below. As of March 1, 2017, THDA began providing additional downpayment and closing cost assistance through its Hardest Hit Fund Down Payment Assistance program as described below.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 4.625%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans. From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans in a principal amount equal to 4% of the purchase price of the property purchased. From October 1, 2014, to September 30, 2016, Great Choice Plus Loans were 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, each Great Choice Plus loan will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

Since October 3, 2016, Great Choice Plus Loans are thirty year 0% interest rate second lien loans in a principal amount up to 5% of the purchase price of the property purchased. No monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan, provided, however, that the full original principal amount will be forgiven at the end of the thirty year term.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans

have been financed with other resources available to THDA. THDA does not expect that Great Choice Plus loans will be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

Hardest Hit Fund Down Payment Assistance

In March 2017, THDA began providing \$15,000 in downpayment assistance from the fifth round of federal Hardest Hit Fund funding ("HHF-DPA") to eligible borrowers who qualify for THDA Great Choice loans and who are purchasing existing homes in one of fifty-five zip codes in thirty Tennessee counties. HHF-DPA is secured by a second deed of trust for a ten year term. HHF-DPA does not bear interest, and there are no monthly payments, but it is due on sale. HHF-DPA is forgiven at 20% per year in years six through ten. A THDA approved Homebuyer Education course is also required.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans are serviced by the Federation of Appalachian Housing Enterprises, Inc., as of January 1, 2015. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. As of December 1, 2016, the maximum loan amount was increased to \$123,750 for Maury, Williamson, Davidson, Rutherford, Wilson and Sumner Counties. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable.

As of May 31, 2018 (unaudited), 113 New Start Program Loans, with an aggregate principal balance of approximately \$5,320,043, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction. Eligible borrowers will also be eligible for Great Choice Plus loans.

As of May 31, 2018 (unaudited), 285 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$32,024,657, were outstanding under the General Resolution. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became transferred program loans allocable to the Issue 2013-1 Bonds under the General Resolution.

As of May 31, 2018 (unaudited), 161 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$8,900,523, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers prior to October 1, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds. THDA also provided downpayment and closing cost assistance in the form of a grant in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made.

As of May 31, 2018 (unaudited), 2,706 Great Rate, 133 Great Advantage, and 1,658 Great Start Program Loans, with an aggregate principal balance of approximately \$358,554,927, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of May 31, 2018 (unaudited), 14,834 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$1,471,053,299 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 309.99 months and an approximate weighted average interest rate of 4.51%.

Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of May 31, 2018 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured	12,376	\$ 1,283,124,354	83.43%	87.22%
VA Guaranteed	286	27,046,977	1.93	1.84
Privately Insured	872	70,234,259	5.88	4.77
USDA/RD Guaranteed	820	60,051,514	5.53	4.08
Uninsured ⁽²⁾	480	30,596,196	3.24	2.08
TOTAL	14,834	\$ 1,471,053,299⁽⁴⁾	100.00%⁽⁴⁾	100.00%⁽⁴⁾

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution, either upon their direct transfer to the General Resolution or upon the refunding of other THDA obligations, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have

conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

As of May 31, 2018 (unaudited), 872⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$70,234,259 were outstanding under the General Resolution. As of May 31, 2018 (unaudited), THDA had the following information regarding the private mortgage insurers for 814 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance⁽⁴⁾</u>	<u>Percent of Total Number of Program Loans⁽⁴⁾</u>	<u>Percent of Total Outstanding Balance of Program Loans⁽⁴⁾</u>
Arch MI ⁽²⁾	123	\$ 9,711,190	0.83%	0.66%
Commonwealth/CMAC	3	73,168	0.02	0.00
Genworth Mortgage Insurance Corp. (GE)	346	28,615,979	2.33	1.95
MGIC	281	23,095,959	1.89	1.57
PMI Mortgage Insurance Co. ⁽³⁾	2	141,065	0.01	0.01
Radian Guaranty Inc.	5	314,207	0.03	0.02
Republic Mortgage Insurance Corporation	47	3,672,267	0.32	0.25
Triad Guaranty Insurance Corporation ⁽³⁾	7	425,413	0.05	0.03
TOTAL	814	\$ 66,049,248⁽⁵⁾	5.49%⁽⁵⁾	4.49%⁽⁵⁾

(1) The private mortgage insurer is not identified with respect to 58 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA began compiling data with respect to individual private mortgage insurance providers.

(2) Purchased United Guaranty Residential Insurance Co.

(3) Certain private mortgage insurance companies are under the oversight of their respective state insurance regulators and may pay claims at rates less than \$1.00 per \$1.00 of coverage.

(4) Rounded figures.

(5) Rounded total.

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Program Loan Interest Rates

The following table summarizes, as of May 31, 2018 (unaudited), the interest rates of the outstanding Program Loans:

Mortgage Rates (%)	Number of Program Loans⁽¹⁾	Outstanding Balance ⁽²⁾	Percent of Total Number of Program Loans⁽²⁾	Percent of Total Outstanding Balance ⁽²⁾
0.00-1.99	164	\$ 7,256,453	1.11%	0.49%
2.00-2.99	2	157,914	0.01	0.01
3.00-3.99	3,521	408,314,842	23.74	27.76
4.00-4.49	3,605	427,219,501	24.30	28.90
4.50-4.99	3,177	415,462,170	21.42	24.99
5.00-5.49	1,138	87,965,982	7.67	5.98
5.50-5.99	1,597	93,098,632	10.77	6.33
6.00-6.49	520	39,523,987	3.51	2.69
6.50-6.99	619	29,815,111	4.17	2.03
7.00-7.49	222	7,057,124	1.50	0.48
7.50-7.99	195	3,591,737	1.31	0.24
8.00-8.99	70	1,476,129	0.47	0.10
9.00-9.49	3	34,045	0.02	0.00
9.50-12.00	1	5,434	0.01	0.00
TOTAL	14,834	\$1,520,979,061 ⁽³⁾	100.00%⁽³⁾	100.00%⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have passed with no payment received by the last business day of the month in which the second payment was due are considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

The financial institutions who service Program Loans manage delinquencies by working with borrowers in an attempt to avoid defaults and by sending payment requests to borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

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Delinquencies and Foreclosures as of May 31, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.69%, based on a total of 14,834 Program Loans as of May 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of May 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MAY 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	213	\$ 21,319,661	1.72%	0.90% ⁽⁴⁾
VA Guaranteed	2	198,307	0.70	0.59
Privately Insured	8	755,428	0.92	0.58 ⁽⁵⁾
USDA/RD Guaranteed.....	22	1,514,105	2.68	⁽⁶⁾
Uninsured.....	5	212,496	1.04	⁽⁶⁾
TOTAL	<u>250</u>	<u>\$ 23,999,996⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2018.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.75%, based on a total of 14,834 Program Loans as of May 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of May 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MAY 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	579	\$ 52,230,190	4.68%	1.60% ⁽⁴⁾
VA Guaranteed	15	867,622	5.24	1.17
Privately Insured	59	3,466,859	6.77	1.02 ⁽⁵⁾
USDA/RD Guaranteed.....	37	2,402,822	4.51	⁽⁶⁾
Uninsured.....	14	689,175	2.92	⁽⁶⁾
TOTAL	<u>704</u>	<u>\$ 59,656,668⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.38%, based on a total of 14,834 Program Loans as of May 31, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of May 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2018, are as follows:

IN FORECLOSURE AS OF MAY 31, 2018				
Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	47	\$ 4,497,619	0.38%	0.48% ⁽⁴⁾
VA Guaranteed	4	296,251	1.40	0.78
Privately Insured	3	167,824	0.34	0.40 ⁽⁵⁾
USDA/RD Guaranteed.....	2	102,976	0.24	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	56	\$ 5,064,670 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

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FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the four most recent years and for the nine months ended March 31, 2017, and March 31, 2016. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2017, 2016, 2015, 2014, and 2013, and from unaudited financial information of THDA for the nine months ended March 31, 2017, and March 31, 2016.

	Nine Months Ended March 31 (Unaudited)		Year Ended June 30 (Audited)				
Residential Finance Bond Group	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES:							
Interest on Mortgages	\$ 45,551	\$ 35,830	\$ 49,298	\$ 36,426	\$ 25,393	\$ 13,518	\$ 222
Investment Income:							
Interest	2,244	1,162	1,617	2,011	1,866	335	10
Net Increase (decrease) in the Fair Value of Investments	(1,377)	(938)	(792)	(320)	(552)	(146)	(83)
Fees and Other Income	<u>853</u>	<u>888</u>	<u>853</u>	<u>953</u>	<u>160</u>	<u>-</u>	<u>76</u>
	47,271	36,942	50,976	39,070	26,867	13,707	225
EXPENSES:							
Interest	29,285	22,224	30,542	24,876	17,058	9,087	551
Issuance Cost	2,440	2,322	3,602	2,311	2,343	2,167	1,679
Mortgage Servicing Fees	3,523	2,809	3,857	2,967	2,048	980	18
Other	<u>870</u>	<u>466</u>	<u>970</u>	<u>1,157</u>	<u>1,001</u>	<u>239</u>	<u>1</u>
	36,118	27,821	38,971	31,311	22,450	12,473	2,249
Excess of Revenues over Expenses	11,153	9,121	12,005	7,759	4,417	1,234	(2,024)
Net Position at beginning of period	176,030	116,295	116,295	101,055	105,707	(68,279)	-
Other Transfers	<u>5,579</u>	<u>26,450</u>	<u>47,730</u>	<u>7,481</u>	<u>(9,069)</u>	<u>172,752</u>	<u>(66,255)</u>
Net Position at end of period	<u>\$ 192,762</u>	<u>\$ 151,866</u>	<u>\$ 176,030</u>	<u>\$ 116,295</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>	<u>\$ (68,279) ⁽¹⁾</u>

⁽¹⁾ On May 30, 2013 THDA issued its Issue 2013-1 Bonds under the General Resolution. Proceeds of the Issue 2013-1 Bonds in an aggregate principal amount of \$75,905,000 were applied to the refunding of THDA's Issue 2003-A Bonds under the 1974 General Resolution and THDA's Issue 2004-1 Bonds under the 1985 General Resolution. While the Issue 2013-1 Bonds were issued on May 30, 2013, the assets allocable to the Issue 2003-A and the Issue 2004-1 Bonds in an aggregate amount of approximately \$99,855,200 did not transfer to the General Resolution until July 1, 2013, the date of the redemption of such bonds. As a result of such transfer, the net position of the General Resolution as of July 1, 2013, was approximately \$31,576,000 (unaudited).

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of May 31, 2018 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 6,768,446	\$ 57,137,276
Federal Home Loan Mortgage Corporation Notes	0	26,287,707
Fannie Mae Notes	14,631,135	8,394,755
Financing Corporation Bonds	0	2,301,284
TOTAL.....	<u>\$ 21,399,581</u>	<u>\$ 94,121,022</u>

As of May 31, 2018 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 0	\$ 36,992,520
Federal Home Loan Mortgage Corporation Notes	0	1,633,873
Fannie Mae Notes	0	8,394,755
TOTAL.....	<u>\$ 0</u>	<u>\$ 47,021,147</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2022.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of June 30, 2018 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$2,089,025,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for

reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors⁽¹⁾ are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Kim Grant Brown, Chairman	June 30, 2019	Owner, Grant & Company Collierville, TN
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Tre Hargett ⁽²⁾	January, 2021	Secretary of State
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
David H. Lillard, Jr. ⁽²⁾	January, 2019	State Treasurer
Larry Martin ⁽²⁾	(3)	Commissioner, Department of Finance and Administration
Austin McMullen	June 30, 2019	Member, Bradley Arant Boult Cummings LLP Nashville
Todd Skelton ⁽²⁾	(3)	Deputy Counsel to the Governor
John K. Snodderly	June 30, 2019	Executive Director, LaFollette Housing Authority LaFollette
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Pieter J. van Vuuren	June 30, 2019	President & CEO, First National Bank of McMinnville McMinnville, TN
Justin Wilson ⁽²⁾	January, 2019	Comptroller of the Treasury
Mary Mac R. Wilson	June 30, 2021	Director of Parish Operations, Roman Catholic Diocese of Knoxville, Knoxville, TN
Daisy Fields	(4)	Gallatin, TN

(1) One Board of Directors position appointed by the Governor is currently vacant.

(2) Ex officio member.

(3) Serves at pleasure of the Governor.

(4) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 247 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Servicing since 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Operating Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010). B.S., Middle Tennessee State University.

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Conners & Berry (currently Bradley Arrant Boulton Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999); Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the “State”) amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

As of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ended June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees. Information about TCRS is available on the Tennessee Treasury website at www.treasury.tn.gov/tcrs.

The TCRS covers three large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 58,506 active members in TCRS in the state and higher education employee group at June 30, 2017. This total includes 247 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation for the defined benefit plan or contributions to a defined contribution plan.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age 60 or 30 years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute 5% of salary to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with an overall 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The defined benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age 65 or the rule of 90 (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan, requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for the Defined Benefit Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute to TCRS 18.87% of salary for the period July 1, 2017 through June 30, 2018, based on the July 1, 2016 actuarial valuation. The June 30, 2017 actuarial valuation established the employer contribution rate of 19.23% that is applicable for the period July 1, 2018 through June 30, 2019. General state employees do not contribute to this plan.

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2017 (measurement date of June 30, 2016), the net pension liability for the state and higher education employee group based on the market value of assets was \$1.8 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 87.96%.

Actuarial Data for the Defined Benefit Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, an actuarial valuation is performed to determine the employer contribution rate as well as the actuarially determined contribution (ADC) and the stabilization reserve rate. For the period July 1, 2017 through June 30, 2018, the overall 4% employer contribution rate to TCRS consists of 3.94% for general employees, with the employer rate for judicial and public safety employees being higher at 6.77% and 4.79%, respectively. The employer contribution rate for general employees of 3.94% consists of 1.29% for the ADC and 2.65% for the stabilization reserve.

For the period July 1, 2018 through June 30, 2019, the employer contribution rate consists of 3.95% for general employees, with the employer rate for judicial and public safety employees being higher at 7.43% and 4.80%, respectively. The employer contribution rate for general employees of 3.95% consists of 1.66% for the ADC and 2.29% for the stabilization reserve.

THDA Employer Contributions for Pensions (Defined Benefit and Defined Contribution Plan)

For THDA, the employer contribution rate for employees hired before July 1, 2014, stated as a percentage of salary, is as follows: 18.87% for the period July 1, 2017 through June 30, 2018, and 19.23% for the period July 1, 2018 through June 30, 2019. For employees first hired after June 30, 2014, the employer rate is 8.94% for the period July 1, 2017 through June 30, 2018 and 8.95% for the period July 1, 2018 through June 30, 2019 (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions for the pension plans are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	THDA Employer Contributions to DC (Open Plan)	Percentage of THDA Budget
2018 ⁽¹⁾	18.87/9.00% ⁽²⁾	\$ 17,415,000 ⁽¹⁾	\$ 2,440,500 ⁽¹⁾	\$ 207,900 ⁽¹⁾	2.37% ⁽¹⁾
2017	15.02/9.00 ⁽²⁾	13,396,776 ⁽³⁾	1,577,092	183,030	1.53
2016	15.03/9.00 ⁽²⁾	11,965,554	1,581,407	100,999	1.38
2015	15.02/9.00 ⁽²⁾	11,569,902	1,673,881	28,731	1.21
2014	15.03	11,721,300	1,761,711		1.19
2013	15.03	11,315,872	1,692,847		1.26
2012	14.91	11,005,204	1,632,095		1.36
2011	14.91	10,593,944	1,585,654		1.25
2010	13.02	9,956,646	1,295,272		1.03
2009	13.02	9,267,262	1,201,303		0.98

(1) Estimated; final amount anticipated to be lower due to unfilled positions, staff turnover and salaries at less than the maximum permitted.

(2) Varies depending on plan the employee is enrolled in.

(3) The increase in "Total Salary of THDA Employees" from the actual amount for the fiscal year ended June 30, 2016, to the actual amount for the fiscal year ended June 30, 2017, is due to the additional salaries for approximately thirty eight (38) positions THDA has filled in connection with the servicing activities THDA is undertaking through Volunteer Mortgage Loan Servicing.

For the fiscal year ended June 30, 2017, the salary of THDA employees totaled \$13,396,776, which represents 0.47% of the \$2.85 billion of salary for all state and higher education employees in TCRS.

It is anticipated that there will be upward pressure on the employer contribution rate in the Closed State and Higher Education Employee Pension Plan in future actuarial valuations as deferred investment losses that have been actuarially smoothed are recognized over the next ten years as well as a continuing low earnings environment.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

General Information about the 401(k) and 457 Defined Contribution Plans

The state provides additional voluntary defined contribution plans to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Employee contribution limits to the 401(k) and 457 plans are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA. The THDA contribution for the fiscal year ended June 30, 2017 was \$79,509.38.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 45 and 74) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2015, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used a projected unit credit actuarial cost method, indicates that for the fiscal year ended June 30, 2017, the total unfunded actuarial liability of THDA is approximately \$2,923,000 and the annual required contribution for THDA is approximately \$353,000. The annual required contribution consists of the normal cost (the portion of the actuarial present value of OPEB benefits which is allocated to a valuation year by the actuarial cost method) and an amortization of the unfunded actuarial liability. The report may be reviewed at <https://www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-opeb.html>. The State did not pre-fund any actuarially determined OPEB liability, and continued to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for fiscal year ended June 30, 2017. The State charged THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that interest on the Issue 2018-3 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code. No federal alternative minimum tax applies to corporations for tax years beginning after December 31, 2017.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a "Premium Bond") over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or otherwise prevent beneficial owners of the Issue 2018-3 Bonds from realizing the full current benefit of the tax status of such interest, or adversely affect the market value of the Issue 2018-3 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Issue 2018-3 Bonds. Purchasers of the Issue 2018-3 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Issue 2018-3 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation, regulatory initiatives or litigation.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and that Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

Due to the ongoing uncertainty regarding the economy of the United States of America (including, without limitation, matters such as the current and future political uncertainty regarding the United States debt limit), obligations, such as the Offered Bonds, issued by state and local governments, and instrumentalities thereof, could be subject to a

rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Offered Bonds. When certain automatic spending cuts are imposed on the federal government as a result of actions taken or not taken by the federal government (commonly referred to as a sequester) or when the federal government fails to pass certain spending authorizations prior to certain deadlines, resulting in a cessation of various governmental functions and operations (commonly referred to as a government shutdown), there may not be any immediate direct adverse impact on FHA, VA, RD or THDA. No assurance can be given, however, that a sequester or a government shutdown that lasts an extended period of time would continue to have no direct adverse impact upon the United States housing industry in general or THDA in particular.

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, THDA, in the Issue 2018-3 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2018-3 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MSRB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of

all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2018-3 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2018-3 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2018-3 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2018-3 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MRSB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2017, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the nine months ended March 31, 2018. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

Citigroup Global Markets Inc., Raymond James & Associates, Inc., RBC Capital Markets, LLC, J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and J.J.B. Hilliard, W.L. Lyons, LLC (collectively, the "Underwriters") have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$913,269.29. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

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

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Offered Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Offered Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Offered Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Offered Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Kim Grant Brown

Chair

/s/ Ralph M. Perrey

Executive Director



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

APPENDIX A

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and the other postemployment benefits schedule of funding progress, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA
Director
December 11, 2017

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2017

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2017, with comparative information presented for the fiscal year ended June 30, 2016. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

Introduction – The Tennessee Housing Development Agency

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2017, THDA has originated over 116,000 single-family mortgage loans in its 44-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated*, Section 13-23-105). This board meets regularly on a bimonthly basis; however, some committees may meet more often as situations dictate.

Overview of the Financial Statements

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discretely presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <http://www.tn.gov/finance/article/fa-accfin-cafr>.

Financial Highlights

Year Ended June 30, 2017

- Total assets increased by \$99.1 million, or 4.0%.
- Total liabilities increased by \$102.4 million, or 5.2%.
- Net position was \$510.0 million. This is a decrease of \$1.0 million, or 0.2%, from fiscal year 2016.
- Cash and cash equivalents increased by \$137.3 million, or 59.2%.
- Total investments decreased by \$68.5 million, or 24.9%.
- Bonds payable increased by \$74.0 million, or 3.9%.
- THDA originated \$325.9 million in new loans, which is an increase of \$32.4 million, or 11.0%, from the prior year.

Financial Analysis of the Agency

Net Position – The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	2017	2016
Current assets	\$ 427,265	\$ 393,675
Capital assets	1,809	1,175
Other noncurrent assets	2,146,413	2,081,560
Total assets	2,575,487	2,476,410
Deferred outflows of resources	4,726	3,142
Current liabilities	185,772	149,798
Noncurrent liabilities	1,883,961	1,817,534
Total liabilities	2,069,733	1,967,332
Deferred inflows of resources	514	1,288
Invested in capital assets	1,809	1,175
Restricted net position	430,633	430,114
Unrestricted net position	77,524	79,643
Total net position	\$ 509,966	\$ 510,932

2017 to 2016

THDA's total net position decreased by \$1.0 million because operating income was less than the amount by which nonoperating expenses exceeded nonoperating revenues.

First and second mortgage loans (net of allowance for forgivable second mortgages) receivable increased by \$31.7 million. During fiscal year 2017, single-family mortgage loan originations increased by \$32.4 million, whereas mortgage loan payoffs decreased by \$23.1 million and mortgage loan repayments decreased \$2.4 million. In addition, THDA recognized an allowance for future forgiveness of forgivable second mortgages of \$10.0 million for fiscal year 2017.

Total liabilities increased \$102.4 million. The increase is primarily due to a \$74.0 million increase of bonds payable at June 30, 2017, as compared to June 30, 2016.

Changes in Net Position – The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	2017	2016
Operating revenues		
Mortgage interest income	\$ 87,963	\$ 90,235
Investment income	1,743	5,872
Other	18,546	17,052
Total operating revenues	108,252	113,159
Operating expenses		
Interest expense	56,892	62,045
Other	41,980	41,916
Total operating expenses	98,872	103,961
Operating income	9,380	9,198
Nonoperating revenues (expenses)		
Grant revenues	277,877	269,226
Grant expenses	(288,223)	(281,899)
Total nonoperating revenues (expenses)	(10,346)	(12,673)
Change in net position	\$ (966)	\$ (3,475)

2017 to 2016

Total operating revenues decreased \$4.9 million, primarily due to a decrease in investment income of \$4.1 million. During fiscal year 2017, certain long-term investments with high interest yields matured, which were re-invested into other investments having contemporary investment yields. In addition, fair value of investments decreased by \$3.8 million in fiscal year 2016 and decreased by \$5.6 million in fiscal year 2017.

Total operating expenses decreased \$5.1 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

Debt Activity – Bonds outstanding at June 30 were as follows (expressed in thousands):

	2017	2016
Bonds payable	\$1,980,456	\$1,906,494

Year Ended June 30, 2017

Total bonds payable increased \$74.0 million, which is deemed an insignificant year-over-year variance. During the fiscal year, THDA issued debt totaling \$462.0 million, with activity arising from four bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$47.7 million of outstanding bonds into new bond originations with lower interest rates. In addition to the nominal tax-exempt mortgage revenue bonds issued, THDA also issued one taxable bond issue primarily for economic refunding opportunities.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard & Poor's Ratings Services (S&P), a division of The McGraw-Hill Companies, Inc., has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during fiscal year 2017 or fiscal year 2016.

Debt Limits

In accordance with *Tennessee Code Annotated*, Section 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

Grant Programs

During fiscal year 2007 through fiscal year 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors allocated additional THDA funds for grants. These funds established a grant program that was titled by THDA the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

	2017	2016	2015 and Prior	Total
Funding Sources:				
THDA	\$7,500,000	\$7,500,000	\$59,800,000	\$74,800,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	\$7,500,000	\$7,500,000	\$64,150,000	\$79,150,000
Approved Uses:				
Rural repair program (USDA)	\$ -	\$ -	\$ 6,300,000	\$ 6,300,000
Ramp Programs & Hsg Modification	300,000	-	1,350,000	1,650,000
Emergency Repairs	2,700,000	2,700,000	15,800,000	21,200,000
Competitive Grants	3,500,000	2,800,000	34,800,000	41,100,000
Rebuild & Recover	500,000	500,000	2,800,000	3,800,000
Other Grants	500,000	1,500,000	3,100,000	5,100,000

Totals	\$7,500,000	\$7,500,000	\$64,150,000	\$79,150,000

Current Mortgage Products and Environment

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the Great Choice and the Great Choice Plus loan programs were introduced and the Great Rate, Great Advantage, and Great Start loan programs were eliminated. The Great Choice loan program offers THDA the opportunity to offer a more competitive interest rate on its 30-year fixed rate mortgage product while still offering down payment assistance with the addition of the Great Choice Plus loan program, which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the Great Choice Plus loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15. Subsequently, in October of 2016, the Great Choice Loan product was revised to feature a 30-year forgiveness requirement, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced or otherwise paid in full within the first 30 years of closing.

A special interest rate reduction on the Great Choice loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as “Homeownership for the Brave,” provides a 0.5% rate reduction on the current interest rate for Great Choice loans. In addition to the rate reduction, Homeownership for the Brave applicants are eligible for optional down payment and closing cost assistance through the Great Choice Plus second mortgage loan at a 0% interest rate.

All first mortgage loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages, interest-only mortgages, “buy-down” loans, mortgages with a future lump-sum payment due (balloon-type mortgages), or with other similar mortgage terms. THDA does not make or purchase “sub-prime” mortgage loans. Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor’s Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae

or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have LTV ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's Internet site at <https://thda.org/homebuyers/homebuyers>.

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2017, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principle Amount Outstanding	Percentage ¹
60 – 89 Days Past Due	23,187	413	\$ 33,195,660	1.78%
90+ Days Past Due	23,187	1,388	108,494,506	5.99%
In Foreclosure	23,187	163	15,139,374	0.69%

Economic Factors

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a benchmark, THDA uses the one-, three-, and five-year Constant Maturity Treasury rates as established by the United States Treasury.

The continuation of relatively low interest rates from a historic perspective increases the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

Direct Loan Servicing

During FY 2017, THDA began the direct servicing of mortgage loans under the name of Volunteer Mortgage Loan Servicing ("VMLS"). On November 1, 2016, the servicing of approximately 1,800 THDA mortgage loans having an outstanding principal balance of \$91.5 million was transferred to VMLS from an existing THDA mortgage servicer.

Contacting THDA's Financial Management

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends.

¹ Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

If you have questions about this report or need additional financial information, contact Trent Ridley, Chief Financial Officer, at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2017
(Expressed in Thousands)

ASSETS

Current assets:		
Cash and cash equivalents (Note 2)	\$	262,872
Investments (Note 2)		61,346
Receivables:		
Accounts		993
Interest		11,531
First mortgage loans		62,336
Due from federal government		28,186
Prepaid expenses		<u>1</u>
Total current assets		<u>427,265</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		106,050
Investments (Note 2)		95,738
Investment interest receivable		881
Investments (Note 2)		49,135
First mortgage loans receivable		1,870,877
Second mortgage loans receivable		30,559
Allowance for forgivable second mortgages		(9,984)
Advance to local government		3,124
Net pension asset (Note 5)		33
Capital assets:		
Furniture and equipment		3,565
Less accumulated depreciation		<u>(1,756)</u>
Total noncurrent assets		<u>2,148,222</u>
Total assets		<u>2,575,487</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refundings		862
Deferred outflows related to pensions (Note 5)		<u>3,864</u>
Total deferred outflows of resources		<u>4,726</u>

LIABILITIES

Current liabilities:		
Accounts payable		13,359
Accrued payroll and related liabilities		632
Compensated absences		667
Due to primary government		723
Interest payable		29,855
Escrow deposits		1,536
Prepayments on mortgage loans		1,279
Due to federal government		26,301
Bonds payable (Note 3)		<u>111,420</u>
Total current liabilities		<u>185,772</u>
Noncurrent liabilities:		
Bonds payable (Note 3)		1,869,036
Compensated absences		647
Net pension liability (Note 5)		7,652
Net OPEB obligation (Note 9)		1,661
Escrow deposits		3,855
Arbitrage rebate payable		<u>1,110</u>
Total noncurrent liabilities		<u>1,883,961</u>
Total liabilities		<u>2,069,733</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 5)		<u>514</u>
Total deferred inflows of resources		<u>514</u>

NET POSITION

Net investment in capital assets		1,809
Restricted for single family bond programs (Note 4 and Note 7)		418,137
Restricted for grant programs (Note 4)		9,310
Restricted for Homebuyers Revolving Loan Program (Note 4)		3,153
Restricted for net pension asset (Note 5)		33
Unrestricted (Note 7)		<u>77,524</u>
Total net position	\$	<u>509,966</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

OPERATING REVENUES

Mortgage interest income	\$ 87,963
Investment income:	
Interest	7,319
Net (decrease) in the fair value of investments	(5,576)
Federal grant administration fees	13,784
Fees and other income	4,762
Total operating revenues	<u>108,252</u>

OPERATING EXPENSES

Salaries and benefits	18,404
Contractual services	5,665
Materials and supplies	1,576
Rentals and insurance	25
Other administrative expenses	694
Other program expenses	5,273
Interest expense	56,892
Mortgage service fees	6,391
Issuance costs	3,602
Depreciation	350
Total operating expenses	<u>98,872</u>
Operating income	<u>9,380</u>

NONOPERATING REVENUES (EXPENSES)

Federal grants revenue	277,873
Other grants revenue	4
Federal grants expenses	(277,717)
Local grants expenses	(10,506)
Total nonoperating revenues (expenses)	<u>(10,346)</u>
Change in net position	<u>(966)</u>
Total net position, July 1	<u>510,932</u>
Total net position, June 30	<u>\$ 509,966</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 386,565
Receipts from federal government	13,867
Receipts from other funds	551
Other miscellaneous receipts	4,762
Acquisition of mortgage loans	(325,857)
Payments to service mortgages	(6,391)
Payments to suppliers	(9,197)
Payments to federal government	(3,684)
Payments to other funds	(551)
Payments to or for employees	(18,852)
Net cash provided by operating activities	<u>41,213</u>
Cash flows from non-capital financing activities:	
Operating grants received	300,591
Proceeds from sale of bonds	473,792
Operating grants paid	(285,422)
Call premium paid	(36)
Cost of issuance paid	(3,602)
Principal payments	(393,570)
Interest paid	(65,442)
Net cash provided by non-capital financing activities	<u>26,311</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(983)
Net cash used by capital and related financing activities	<u>(983)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	389,882
Purchases of investments	(327,170)
Investment interest received	7,780
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	219
Net cash provided by investing activities	<u>70,711</u>
Net increase in cash and cash equivalents	137,252
Cash and cash equivalents, July 1	<u>231,670</u>
Cash and cash equivalents, June 30	\$ <u>368,922</u>

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ <u>9,380</u>
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Depreciation	350
Changes in assets and liabilities:	
Decrease in accounts receivable	3,067
Decrease in mortgage interest receivable	398
(Increase) in pension asset	(20)
(Increase) in deferred pension outflows	(1,703)
(Increase) in mortgage loans receivable	(31,780)
Decrease in due from federal government	83
Increase in accounts payable	3,395
Increase in accrued payroll /	
compensated absences	176
Increase in due to primary government	651
(Decrease) in arbitrage rebate liability	(2,984)
Increase in pension liability	2,223
(Decrease) in deferred pension inflows	(774)
Investment income included as operating revenue	(1,743)
Interest expense included as operating expense	56,892
Issuance cost included as operating expense	<u>3,602</u>
Total adjustments	<u>31,833</u>
Net cash provided by operating activities	\$ <u><u>41,213</u></u>
Noncash investing, capital, and financing activities:	
(Decrease) in fair value of investments	\$ <u>(3,111)</u>
Total noncash investing, capital, and financing activities	\$ <u><u>(3,111)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee Housing Development Agency (THDA) was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as ex officio board members of the agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and Title 24, *Code of Federal Regulations*, Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

THDA is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds

Notes to the Financial Statements (Continued)

and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, the Tax and Insurance Holding/Escrow account, Payment Clearing and Disbursement accounts, and Net Pension Assets (see note 4).

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

The Tax and Insurance Holding/Escrow account is used to service mortgage accounts. These funds are tax and insurance escrows held on behalf of various mortgagors from payments collected on mortgages. The agency is obligated to expend these monies on escrowed items. The Payment Clearing and Disbursement accounts are also used to service mortgages.

Deferred Amount on Refundings and Bond Premiums and Discounts

Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.

Notes to the Financial Statements (Continued)

Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

Mortgages

Mortgages are carried at their original amount less collected principal.

Loan Servicing

On November 1, 2016, THDA began servicing the mortgage loans previously serviced by an approved THDA Loan Servicer and in May of 2017 began servicing the loans originated from THDA's Originating Agents.

Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds.

Notes to the Financial Statements (Continued)

outstanding. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Allowance for Forgivable Second Mortgages

THDA has offered the Down Payment Assistance product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period.

Beginning in April 2017 this product changed to 100% forgivable second mortgage loan for the 30-year term of the first mortgage. It is 100% repayable in the event the home is sold, refinanced or owners move out of the home. Because of the likelihood that the majority of second mortgage loans will be repaid in the course of the 30-year term, the allowance account established for the second mortgage loans beginning October 2014 will not be used for any second mortgages made after March 2017.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Note 2. Deposits and Investments

Deposits

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

Notes to the Financial Statements (Continued)

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2017, the bank balance was \$32,272,907. This amount includes \$1,744,933; which is held in a T&I Escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf. All bank balances at June 30, 2017, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2017, \$28,690,966 was in the BNYM. Of this amount, \$28,440,966 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the State of Tennessee Treasurer's Report. That report is available on the state's website at www.treasury.tn.gov.

Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk – Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Notes to the Financial Statements (Continued)

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

June 30, 2017		
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$124,172,337	1.728
U.S. Treasury Coupon	27,114,235	2.056
U.S. Agency Discount	162,862,870	0.084
Total	\$314,149,442	0.905

Fair Value Measurements – THDA implemented GASB Statement 72, *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2017, (expressed in thousands):

June 30, 2017				
Assets by Fair Value Level	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Agency Coupon	\$124,172	\$ -	\$124,172	\$ -
U.S. Treasury Coupon	27,114	27,114	-	-
U.S. Agency Discount	162,863	-	162,863	-
Total debt securities	\$314,149	\$27,114	287,035	\$ -

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets as those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets as those securities. Level 3 valuations are derived from valuation techniques in which significant inputs are unobservable.

Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to the Investments section of Note 1 for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2017, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

Notes to the Financial Statements (Continued)

June 30, 2017					
Investment Type	Fair Value	U.S. Treasury ¹	AAA	AA+	Not Rated ²
U.S. Agency Coupon	\$124,172,337	\$ -	\$ -	\$121,738,787	\$ 2,433,550
U.S. Treasury Coupon	27,114,235	27,114,235	-	-	-
U.S. Agency Discount	162,862,870	-	-	-	162,862,870
Total	\$314,149,442	\$27,114,235	\$-	\$121,738,787	\$165,296,420

In addition to these investments, the agency has \$229,226,502 invested in a money market fund. This fund is measured at amortized cost and has a Standard and Poors rating of AAA.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

June 30, 2017		
Issuer	<u>Fair Value</u> <u>(Thousands)</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$178,179	56.72
Federal Home Loan Mortgage Corp.	\$31,734	10.10
Federal National Mortgage Assoc.	\$74,688	23.77

GASB 79 Disclosures – During fiscal year 2016, THDA implemented GASB Statement 79, *Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that THDA participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of \$5 million or more.

Note 3. Liabilities

Bonds Issued and Outstanding

Homeownership Program Bonds				Ending Balance 6/30/2017
Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	(Thousands)
2007-4	1/1/2009 – 7/1/2038	150,000	3.75 to 5.50	23,110
2008-1	7/1/2009 – 1/1/2039	60,000	2.45 to 5.70	12,920
2009-1	1/1/2010 – 7/1/2029	50,000	0.75 to 5.00	17,060

¹ This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

² This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

Notes to the Financial Statements (Continued)

2009-2	7/1/2010 – 7/1/2030	75,000	0.90 to 5.00	22,125
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50	43,110
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65	77,430
2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50	71,785
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00	55,795
Total Homeownership Program Bonds		\$827,690		\$ 323,335
Plus: Unamortized Bond Premiums				2,817
Net Homeownership Program Bonds				<u>\$326,152</u>

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2017 (Thousands)
2009-A	1/1/2011 – 1/1/2040	\$100,000	0.90 to 4.625	\$ 11,265
2010-A	1/1/2011 – 7/1/2041	160,000	0.60 to 5.00	16,840
2010-B	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	49,435
2011-A	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	14,900
2011-B	7/1/2012 – 7/1/2041	100,000	0.25 to 4.50	54,985
2011-C	7/1/2012 – 7/1/2041	100,000	0.40 to 4.30	52,385
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	118,405
Total Housing Finance Program Bonds		\$810,000		\$318,215
Plus: Unamortized Bond Premiums				3,521
Net Housing Finance Program Bonds				<u>\$321,736</u>

Residential Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2017 (Thousands)
2013-1	1/1/2014 – 7/1/2043	\$ 215,905	0.40 to 4.00	\$ 122,355
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	79,315
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	110,980
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	122,025
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	135,000
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	157,285
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	117,765
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	120,775
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	62,000
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	100,000
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	175,000
Total Residential Finance Program Bonds		\$1,549,205		\$1,302,500
Plus: Unamortized Bond Premiums				30,079
Net Residential Finance Program Bonds				<u>\$1,332,579</u>
Net Total All Bonds				<u>\$1,980,467</u>

Housing Finance Program Bonds – The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New

Notes to the Financial Statements (Continued)

Issue Bond Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

Debt Service Requirements

Debt service requirements to maturity at June 30, 2017, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2018	\$ 40,650	\$ 62,967	\$ 103,617
2019	70,865	65,092	135,957
2020	73,235	63,386	136,621
2021	77,710	61,470	139,180
2022	76,730	59,291	136,021
2023 – 2027	387,255	259,290	646,545
2028 – 2032	379,994	193,992	573,986
2033 – 2037	374,226	123,720	497,946
2038 – 2042	331,540	57,686	389,226
2043 - 2047	131,845	10,269	142,114
Total	\$1,944,050	\$957,163	\$2,901,213

Redemption of Bonds and Notes

During the year ended June 30, 2017, bonds were retired at par before maturity in the Homeownership Program in the amount of \$97,236,000, in the Housing Finance Program in the amount of \$70,510,000, and in the Residential Finance Program in the amount of \$111,550,000.

Notes to the Financial Statements (Continued)

The respective carrying values of the bonds were \$98,407,537, \$71,242,629 and \$114,475,759. This resulted in revenue to the Homeownership Program of \$1,171,537, to the Housing Finance Program of \$732,629, and to the Residential Finance Program of \$2,925,759.

On May 18, 2016, the agency issued \$125,000,000 in Residential Finance Program Bonds, Issue 2016-1. On July 1, 2016, the agency used \$24,060,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$24,060,000 early redemption). The carrying amount of these bonds was \$24,060,000. The refunding increased the agency's debt service by \$5,737,592 over the next 20.00 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$3,034,466.

On October 18, 2016, the agency issued \$125,000,000 in Residential Finance Program Bonds, Issue 2016-2. On January 1, 2017, the agency used \$24,205,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$24,205,000 early redemption). The carrying amount of these bonds was \$24,205,000. The refunding reduced the agency's debt service by \$292,971 over the next 20.00 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$3,273,731.

On November 16, 2016, the agency issued \$62,000,000 in Residential Finance Program Bonds, Issue 2016-3. On January 1, 2017, the agency used \$62,000,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$62,000,000 early redemption). The carrying amount of these bonds was \$63,848,048. The refunding reduced the agency's debt service by \$29,424,149 over the next 20.125 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$16,645,830.

On March 30, 2017, the agency issued \$100,000,000 in Residential Finance Program Bonds, Issue 2017-1.

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2017 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2016	Additions	Reductions	Ending Balance June 30, 2017	Amounts Due Within One Year ³
Bonds Payable	\$1,875,620	\$462,000	(\$393,570)	\$1,944,050	\$111,420,
Plus: Unamortized Bond Premiums	30,916	11,995	(6,505)	36,406	-
Less: Unamortized Bond Discounts	(42)	-	42	-	-
Compensated Absences	1,244	70	-	1,314	667
Net Pension Liability	5,429	3,784	(1,561)	7,652	-
Escrow Deposits	3,437	4,798	(2,844)	5,391	1,536

³Amounts due within one year include management authorized bond refundings at June 30.

Notes to the Financial Statements (Continued)

Arbitrage Rebate Payable	4,094	700	(3,684)	1,110	-
Total	\$1,920,698	\$483,347	(\$408,122)	\$1,995,923	\$113,623

Note 4. Restricted Net Position

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

Note 5. Pension Plans

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Notes to the Financial Statements (Continued)

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. THDA employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2017, to the Closed State and Higher Education Employee Pension Plan were \$1,542,218, which is 15.02 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2017, THDA reported a liability of \$7,652,061 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial

valuation as of that date. THDA's proportion of the net pension liability was based on a projection of THDA's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, THDA's proportion was 0.419391 percent. The proportion measured as of June 30, 2015, was 0.421046.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, THDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 429,122	\$ 406,599
Net difference between projected and actual earnings on pension plan investments	1,850,632	-
Changes in proportion	-	103,989
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2016	1,542,218	-
Total	\$3,821,972	\$510,588

Deferred outflows of resources, resulting from THDA's employer contributions of \$1,542,218 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$63,089
2019	63,089
2020	1,105,389
2021	537,600
2022	-
Thereafter	-

Actuarial assumptions – The total pension liability as of the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Notes to the Financial Statements (Continued)

Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012, actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-

Notes to the Financial Statements (Continued)

term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents THDA's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what THDA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension liability	\$15,037,844	\$7,652,061	1,424,149

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2017, THDA reported a payable of \$61,261 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2017.

State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description – State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under *Tennessee Code Annotated* Title 8, Chapters 34-37.

Benefits provided – *Tennessee Code Annotated* Title 8, Chapters 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation by 1.0 percent multiplied by member's years of service credit. A reduced early retirement benefit is available at age 60 with

Notes to the Financial Statements (Continued)

5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2017, to the State and Higher Education Employee Retirement Plan were \$34,927, which is 1.14 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Asset, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2017, THDA reported an asset of \$33,000 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA's proportion of the net pension asset was based on a projection of THDA's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, THDA's proportion was 0.391715 percent. The proportion measured as of June 30, 2015, was 0.457171.

Notes to the Financial Statements (Continued)

Pension expense – For the year ended June 30, 2017, THDA recognized a pension expense of \$18,614. Allocated pension expense was \$18,475 before being increased by \$139 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,401	\$3,546
Net difference between projected and actual earnings on pension plan investments	3,848	-
Changes in proportion	1,110	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2016	34,927	-
Total	\$42,286	\$3,546

Deferred outflows of resources, resulting from THDA's employer contributions of \$34,927 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$ 934
2019	934
2020	934
2021	776
2022	(68)
Thereafter	303

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension asset as of the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012, actuarial experience study and included some adjustment for expected future improvement in life expectancy.

Notes to the Financial Statements (Continued)

The actuarial assumptions used in the June 30, 2016, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents THDA's proportionate share of the net pension asset calculated using the discount rate of 7.5 percent, as well as what THDA's proportionate share of the net pension asset

Notes to the Financial Statements (Continued)

would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension asset	\$3,946	\$33,000	\$54,766

Payable to the Pension Plan

At June 30, 2017, THDA reported a payable of \$1,820 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2017 for both defined benefit pension plans was \$1,303,618.

Note 6. Deferred Compensation Plans

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code, Section 457, and the other pursuant to *Internal Revenue Code* (IRC), Section 401(k). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The THDA provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The THDA recognized a pension expense of \$262,539 for employer contributions.

Notes to the Financial Statements (Continued)

The THDA recognized a pension payable of \$13,001 for employer contributions

Note 7. Provisions for Mortgage Loan Losses

Most mortgage loans are insured by the Federal Housing Administration, an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

Note 8. Insurance-Related Activities

Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property; crime and fidelity coverage on the state's officials and employees; and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

Notes to the Financial Statements (Continued)

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2017, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2017, the Risk Management Fund held \$167 million in cash designated for payment of claims.

Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 9. Other-Postemployment Benefits

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated*, Section 8-27-201. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. Any employee hired on or after July 1, 2015, is not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Notes to the Financial Statements (Continued)

Special Funding Situation – The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including THDA (see Note 10). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy – The premium requirements of plan members of the State Employment Group Plan are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan, adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 25 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retirees 65 years of age or older are provided flat-rate premium subsidies, based on years of service. Retirees with 30 years of service receive \$50 per month; retirees with 25 but less than 30 years of service, \$37.50; and retirees with 15 but less than 20 years of service, \$25.

THDA Annual OPEB Cost and Net OPEB Obligation State Employee Group Plan (Thousands)

	June 30, 2017
Annual Required Contribution (ARC)	\$353
Interest on the Net OPEB Obligation	60
Adjustment to the ARC	(60)
Annual OPEB cost	353
Amount of contribution	(294)
Increase in Net OPEB Obligation	59
Net OPEB Obligation-beginning of year	1,602
Net OPEB Obligation-end of year	<u>\$1,661</u>

Year End	Plan	Annual OPEB Cost (Thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End (Thousands)
6/30/2017	State Employee Group Plan	\$353	83%	\$1,661
6/30/2016	State Employee Group Plan	\$341	74%	\$1,602
6/30/2015	State Employee Group Plan	\$357	71%	\$1,516

Funded Status and Funding Progress – The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2015, was as follows (expressed in thousands):

Actuarial valuation date	7/01/2015
Actuarial accrued liability (AAL)	\$ 2,923
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 2,923
Actuarial value of assets as a % of the AAL	0%

Notes to the Financial Statements (Continued)

Covered payroll (active plan members)	\$10,046
UAAL as a percentage of covered payroll	29%

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions – Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2015, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreases to 6% in fiscal year 2016, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

Note 10. On-Behalf Payments

During the year ended June 30, 2017, the State of Tennessee made payments of \$7,163 on behalf of THDA for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 11. Payments to Primary Government

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157

Notes to the Financial Statements (Continued)

from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

Note 12. Subsequent Events

Residential Finance Program Bonds, Issue 2017-3, were sold on September 28, 2017. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2017-3	7/1/2018 – 1/1/2048	\$99,900,000	0.800 to 3.650

Residential Finance Program Bonds, Issue 2017-4, were authorized by the board of directors on September 22, 2017, not to exceed \$100,000,000. The sale of the bonds will occur no later than February 28, 2018.

In order to preserve Tax-Exempt Private Activity Bond volume capacity, Residential Finance Program Convertible Option Bonds, Issue 2017-5, were authorized by the board of directors on November 14, 2017, not to exceed \$900,000,000. The sale of the bonds will occur no later than December 31, 2017.

Note 13. Events (Unaudited) Subsequent to the Date of the Independent Auditor's Report

Residential Finance Program Bonds, Issue 2017-4, were sold on December 19, 2017. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2017-4	7/1/2018 – 7/1/2048	\$99,900,000	0.950 to 4.000

Due to final tax law changes, THDA did not close Issue 2017-5.

Residential Finance Program Bonds, Issue 2018-1, were authorized by the board of directors on January 23, 2018, not to exceed \$150,000,000. The sale of the bonds will occur no later than June 30, 2018.

Residential Finance Program Bonds, Issue 2018-2, were authorized by the board of directors on March 27, 2018, not to exceed \$175,000,000. The sale of the bonds will occur no later than June 30, 2018.

Notes to the Financial Statements (Continued)

Residential Finance Program Bonds, Issue 2018-1, were sold on March 29, 2018. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2018-1	1/1/2019 – 1/1/2043	\$99,900,000	1.400 to 4.000

Residential Finance Program Bonds, Issue 2018-3, were authorized by the board of directors on May 22, 2018, not to exceed \$150,000,000. The sale of the bonds will occur no later than October 31, 2018.

Residential Finance Program Bonds, Issue 2018-2, were sold on June 12, 2018. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2018-2	1/1/2019 – 1/1/2049	\$160,000,000	1.750 to 4.000

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA's Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
2017	0.391715%	\$33	\$1,661	1.99%	130.56%
2016	0.457171%	\$13	\$498	2.60%	142.55%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.419391%	\$7,652	\$10,240	74.73%	87.96%
2016	0.421046%	5,429	10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
State and Higher Education Employee Retirement Plan

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2017	\$35	\$35	\$-	\$3,068	1.14%
2016	47	47	-	1,661	2.81%
2015	19	19	-	498	3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2017	\$1,542	\$1,542	\$-	\$10,268	15.02%
2016	1,539	1,539	-	10,240	15.03%
2015	1,652	1,652	-	10,994	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%
2009	1,201	1,201	-	9,224	13.02%
2008	1,297	1,297	-	9,522	13.62%

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Other Postemployment Benefits Schedule of Funding Progress

(Expressed in Thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2015	State Employee Group Plan	\$-	\$2,923	\$2,923	0%	\$10,046	29%
7/1/2013	State Employee Group Plan	\$-	\$2,964	\$2,964	0%	\$ 9,841	30%
7/1/2011	State Employee Group Plan	\$-	\$2,919	\$2,919	0%	\$ 9,818	30%

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2017
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 942	\$ 20,592	\$ 42,719	\$ 32,791	\$ 165,828	\$ 262,872
Investments	-	598	9,620	4,577	46,551	61,346
Receivables:						
Accounts	-	211	-	-	782	993
Interest	-	19	2,561	2,560	6,391	11,531
First mortgage loans	156	2,087	17,772	9,326	32,995	62,336
Due from federal government	28,186	-	-	-	-	28,186
Due from other funds	1,863	-	-	-	427	2,290
Prepaid expenses	1	-	-	-	-	1
Total current assets	31,148	23,507	72,672	49,254	252,974	429,555
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	30,424	-	47,337	7,509	20,780	106,050
Investments	-	-	56,784	13,697	25,257	95,738
Investment Interest receivable	-	-	769	48	64	881
Investments	-	1,787	-	-	47,348	49,135
First mortgage loans receivable	544	47,969	328,173	310,642	1,183,549	1,870,877
Second mortgage loans receivable	-	-	30,559	-	-	30,559
Allowance for forgivable second	-	-	(9,984)	-	-	(9,984)
Advance to local government	3,124	-	-	-	-	3,124
Net pension asset	33	-	-	-	-	33
Capital assets:						
Furniture and equipment	3,565	-	-	-	-	3,565
Less accumulated depreciation	(1,756)	-	-	-	-	(1,756)
Total noncurrent assets	35,934	49,756	453,638	331,896	1,276,998	2,148,222
Total assets	67,082	73,263	526,310	381,150	1,529,972	2,577,777
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	640	862
Deferred outflows related to pension	3,864	-	-	-	-	3,864
Total deferred outflows of resources	3,864	-	222	-	640	4,726
LIABILITIES						
Current liabilities:						
Accounts payable	11,307	2	1,221	779	50	13,359
Accrued payroll and related liability	632	-	-	-	-	632
Compensated absences	667	-	-	-	-	667
Due to primary government	723	-	-	-	-	723
Interest payable	-	-	6,463	5,414	17,978	29,855
Escrow deposits	1,536	-	-	-	-	1,536
Prepayments on mortgage loans	10	-	235	175	859	1,279
Due to federal government	26,301	-	-	-	-	26,301
Due to other funds	-	-	2,290	-	-	2,290
Bonds payable	-	-	52,990	13,485	44,945	111,420
Total current liabilities	41,176	2	63,199	19,853	63,832	188,062
Noncurrent liabilities:						
Bonds payable	-	-	273,162	308,251	1,287,623	1,869,036
Compensated absences	647	-	-	-	-	647
Net pension liability	7,652	-	-	-	-	7,652
Net OPEB obligation	1,661	-	-	-	-	1,661
Escrow deposits	608	120	-	-	3,127	3,855
Arbitrage rebate payable	-	-	1,110	-	-	1,110
Total noncurrent liabilities	10,568	120	274,272	308,251	1,290,750	1,883,961
Total liabilities	51,744	122	337,471	328,104	1,354,582	2,072,023
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pension	514	-	-	-	-	514
Total deferred inflows of resources	514	-	-	-	-	514
NET POSITION						
Net investment in capital assets	1,809	-	-	-	-	1,809
Restricted for single family bond program	-	-	189,061	53,046	176,030	418,137
Restricted for grant programs	-	9,310	-	-	-	9,310
Restricted for Homebuyers Revolving Fund	3,153	-	-	-	-	3,153
Restricted for net pension asset	33	-	-	-	-	33
Unrestricted	13,693	63,831	-	-	-	77,524
Total net position	\$ 18,688	\$ 73,141	\$ 189,061	\$ 53,046	\$ 176,030	\$ 509,966

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ -	\$ 44	\$ 22,459	\$ 16,162	\$ 49,298	\$ 87,963
Investment income:						
Interest	71	110	4,863	658	1,617	7,319
Net (decrease) in the fair value of investments	-	(6)	(4,464)	(314)	(792)	(5,576)
Federal grant administration fees	13,784	-	-	-	-	13,784
Fees and other income	3,909	-	-	-	853	4,762
Total operating revenues	17,764	148	22,858	16,506	50,976	108,252
OPERATING EXPENSES						
Salaries and benefits	18,404	-	-	-	-	18,404
Contractual services	5,664	-	-	-	1	5,665
Materials and supplies	1,576	-	-	-	-	1,576
Rentals and insurance	25	-	-	-	-	25
Other administrative expenses	694	-	-	-	-	694
Other program expenses	602	2	3,440	260	969	5,273
Interest expense	10	-	15,401	10,939	30,542	56,892
Mortgage service fees	-	106	1,232	1,196	3,857	6,391
Issuance costs	-	-	-	-	3,602	3,602
Depreciation	350	-	-	-	-	350
Total operating expenses	27,325	108	20,073	12,395	38,971	98,872
Operating income (loss)	(9,561)	40	2,785	4,111	12,005	9,380
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	277,873	-	-	-	-	277,873
Other grant revenue	-	4	-	-	-	4
Federal grants expenses	(277,717)	-	-	-	-	(277,717)
Local grants expenses	(10,506)	-	-	-	-	(10,506)
Total nonoperating revenues (expenses)	(10,350)	4	-	-	-	(10,346)
Income (loss) before transfers	(19,911)	44	2,785	4,111	12,005	(966)
Transfers (to) other funds	-	-	(64,508)	(1,276)	-	(65,784)
Transfers from other funds	17,899	155	-	-	47,730	65,784
Change in net position	(2,012)	199	(61,723)	2,835	59,735	(966)
Total net position, July 1	20,700	72,942	250,784	50,211	116,295	510,932
Total net position, June 30	\$ 18,688	\$ 73,141	\$ 189,061	\$ 53,046	\$ 176,030	\$ 509,966

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ 2,050	\$ 2,725	\$ 125,063	\$ 80,599	\$ 176,128	\$ 386,565
Receipts from federal government	13,867	-	-	-	-	13,867
Receipts from other funds	326	-	225	-	-	551
Other miscellaneous receipts	3,909	-	-	-	853	4,762
Acquisition of mortgage loans	-	(5,052)	(20,848)	-	(299,957)	(325,857)
Payments to service mortgages	-	(106)	(1,232)	(1,196)	(3,857)	(6,391)
Payments to suppliers	(8,271)	(2)	-	-	(924)	(9,197)
Payments to federal government	-	-	(3,684)	-	-	(3,684)
Payments to other funds	-	-	-	-	(551)	(551)
Payments to or for employees	(18,852)	-	-	-	-	(18,852)
Net cash provided (used) by operating activities	(6,971)	(2,435)	99,524	79,403	(128,308)	41,213
Cash flows from non-capital financing activities:						
Operating grants received	300,587	4	-	-	-	300,591
Transfers in (out)	17,898	155	88,447	(1,276)	(105,224)	-
Proceeds from sale of bonds	-	-	-	-	473,792	473,792
Operating grants paid	(285,422)	-	-	-	-	(285,422)
Call premium paid	-	-	-	-	(36)	(36)
Cost of issuance paid	-	-	-	-	(3,602)	(3,602)
Principal payments	-	-	(210,180)	(70,790)	(112,600)	(393,570)
Interest paid	(10)	-	(21,529)	(13,009)	(30,894)	(65,442)
Net cash provided (used) by non-capital financing activities	33,053	159	(143,262)	(85,075)	221,436	26,311
Cash flows from capital and related financing activities:						
Purchases of capital assets	(983)	-	-	-	-	(983)
Net cash used by capital and related financing activities	(983)	-	-	-	-	(983)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	34,940	161,404	37,423	156,115	389,882
Purchases of investments	-	(23,270)	(115,803)	(26,865)	(161,232)	(327,170)
Investment interest received	71	120	5,285	648	1,656	7,780
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	7	54	39	119	219
Net cash provided (used) by investing activities	71	11,797	50,940	11,245	(3,342)	70,711
Net increase in cash and cash equivalents	25,170	9,521	7,202	5,573	89,786	137,252
Cash and cash equivalents, July 1	6,196	11,071	82,854	34,727	96,822	231,670
Cash and cash equivalents, June 30	\$ 31,366	\$ 20,592	\$ 90,056	\$ 40,300	\$ 186,608	\$ 368,922

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (9,561)	\$ 40	\$ 2,785	\$ 4,111	\$ 12,005	\$ 9,380
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	350	-	-	-	-	350
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	232	148	2,235	537	(85)	3,067
(Increase) decrease in mortgage interest receivable	-	-	1,956	456	(2,014)	398
(Increase) in pension asset	(20)	-	-	-	-	(20)
(Increase) in deferred pension outflows	(1,703)	-	-	-	-	(1,703)
(Increase) decrease in mortgage loans receivable	-	(2,041)	79,260	62,946	(171,945)	(31,780)
Decrease in due from federal government	83	-	-	-	-	83
Decrease in interfund receivables	326	-	225	-	-	551
(Decrease) in interfund payables	-	-	-	-	(551)	(551)
Increase (decrease) in accounts payable	1,107	(478)	1,045	758	963	3,395
Increase in accrued payroll / compensated absences	176	-	-	-	-	176
Increase in due to primary government	651	-	-	-	-	651
(Decrease) in arbitrage rebate liability	-	-	(2,984)	-	-	(2,984)
Increase in pension liability	2,223	-	-	-	-	2,223
(Decrease) in deferred pension inflows	(774)	-	-	-	-	(774)
Investment income included as operating revenue	(71)	(104)	(399)	(344)	(825)	(1,743)
Interest expense included as operating expense	10	-	15,401	10,939	30,542	56,892
Issuance cost included as operating expense	-	-	-	-	3,602	3,602
Total adjustments	2,590	(2,475)	96,739	75,292	(140,313)	31,833
Net cash provided (used) by operating activities	\$ (6,971)	\$ (2,435)	\$ 99,524	\$ 79,403	\$ (128,308)	\$ 41,213
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	\$ -	\$ (3)	\$ (834)	\$ (181)	\$ (2,093)	\$ (3,111)
Total noncash investing, capital, and financing activities	\$ -	\$ (3)	\$ (834)	\$ (181)	\$ (2,093)	\$ (3,111)

***UNAUDITED FINANCIAL
INFORMATION***

March 31, 2018

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

	March 31, 2018					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2018
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,352	\$ 15,172	\$ 21,166	\$ 32,362	\$ 177,840	\$ 248,892
Investments	-	599	-	1,198	31,752	33,549
Receivables:						
Accounts	-	112	-	-	-	112
Interest	-	29	1,922	2,061	7,278	11,290
First mortgage loans	156	2,171	14,803	8,181	37,360	62,671
Due from federal government	21,617	-	-	-	-	21,617
Due from other funds	1,579	-	-	-	1,364	2,943
Prepaid Expenses	1	-	-	-	-	1
Total current assets	25,705	18,083	37,891	43,802	255,594	381,075
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	19,724	-	26,722	384	1,307	48,137
Investments	-	-	65,530	20,518	47,017	133,065
Investment interest receivable	-	-	477	129	279	885
Investments	-	1,757	-	-	47,100	48,857
First mortgage loans receivable	535	48,863	267,714	268,975	1,378,291	1,964,378
Second mortgage loans receivable	-	-	35,068	-	-	35,068
Allowance for forgivable second mortgages	-	-	(9,984)	-	-	(9,984)
Unearned Service Release Premiums	522	-	-	-	-	522
Advance to local government	3,133	-	-	-	-	3,133
Net pension asset	33	-	-	-	-	33
Capital assets:						
Furniture and equipment	3,565	-	-	-	-	3,565
Less accumulated depreciation	(1,756)	-	-	-	-	(1,756)
Total noncurrent assets	25,756	50,620	385,527	290,006	1,473,994	2,225,903
Total assets	51,461	68,703	423,418	333,808	1,729,588	2,606,978
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	235	-	449	684
Deferred outflows related to pensions	3,864	-	-	-	-	3,864
Total deferred outflows of resources	3,864	-	235	-	449	4,548
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 6,703	\$ 13	\$ 480	\$ 1,137	\$ 2,388	\$ 10,721
Accrued payroll and related liabilities	2	-	-	-	-	2
Compensated absences	667	-	-	-	-	667
Interest payable	-	-	2,244	2,319	11,447	16,010
Escrow deposits	1,087	-	-	-	-	1,087
Prepayments on mortgage loans	-	-	181	149	941	1,271
Due to federal government	18,860	-	-	-	-	18,860
Due to other funds	-	-	2,943	-	-	2,943
Bonds payable	-	-	21,550	14,005	52,665	88,220
Total current liabilities	27,319	13	27,398	17,610	67,441	139,781
Noncurrent liabilities:						
Bonds payable	-	-	213,130	261,350	1,461,549	1,936,029
Compensated absences	647	-	-	-	-	647
Net pension liability	7,652	-	-	-	-	7,652
Net OPEB obligation	1,661	-	-	-	-	1,661
Escrow deposits	987	120	-	-	8,285	9,392
Arbitrage rebate payable	-	-	1,110	-	-	1,110
Total noncurrent liabilities	10,947	120	214,240	261,350	1,469,834	1,956,491
Total liabilities	38,266	133	241,638	278,960	1,537,275	2,096,272
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	514	-	-	-	-	514
Total deferred inflows of resources	514	-	-	-	-	514
NET POSITION						
Net investment in capital assets	1,809	-	-	-	-	1,809
Restricted for single family bond programs	-	-	182,015	54,848	192,762	429,625
Restricted for grant programs	-	13,751	-	-	-	13,751
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for pension asset	33	-	-	-	-	33
Unrestricted	11,550	54,819	-	-	-	66,369
Total net position	\$ 16,545	\$ 68,570	\$ 182,015	\$ 54,848	\$ 192,762	\$ 514,740

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2018

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2018
OPERATING REVENUES						
Mortgage interest income	\$ 10	\$ -	\$ 11,400	\$ 10,143	\$ 45,551	\$ 67,104
Investment income:						
Interest	129	120	2,080	558	2,244	5,131
Net increase (decrease) in the fair value of investments	-	(2)	(1,764)	(327)	(1,377)	(3,470)
Federal grant administration fees	11,155	-	-	-	-	11,155
Fees and other income	3,676	1	-	-	853	4,530
Total operating revenues	14,970	119	11,716	10,374	47,271	84,450
OPERATING EXPENSES						
Salaries and benefits	15,220	-	-	-	-	15,220
Contractual services	4,717	-	-	-	135	4,852
Materials and supplies	1,280	-	-	-	-	1,280
Rentals and insurance	8	-	-	-	-	8
Other administrative expenses	560	-	-	-	-	560
Other program expenses	333	14	442	152	735	1,676
Interest expense	-	-	7,007	6,880	29,285	43,172
Mortgage service fees	-	102	547	767	3,523	4,939
Issuance costs	-	-	-	-	2,440	2,440
Total operating expenses	22,118	116	7,996	7,799	36,118	74,147
Operating income (loss)	(7,148)	3	3,720	2,575	11,153	10,303
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	224,826	-	-	-	-	224,826
Other grant revenue	-	2	-	-	-	2
Federal grants expenses	(224,832)	-	-	-	-	(224,832)
Local grants expenses	(5,525)	-	-	-	-	(5,525)
Total nonoperating revenues (expenses)	(5,531)	2	-	-	-	(5,529)
Income (loss) before transfers	(12,679)	5	3,720	2,575	11,153	4,774
Transfers (to) other funds	-	(4,576)	(10,766)	(773)	-	(16,115)
Transfers from other funds	10,536	-	-	-	5,579	16,115
Change in net position	(2,143)	(4,571)	(7,046)	1,802	16,732	4,774
Total net position, July 1	18,688	73,141	189,061	53,046	176,030	509,966
Total net position, End of period	\$ 16,545	\$ 68,570	\$ 182,015	\$ 54,848	\$ 192,762	\$ 514,740

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2018

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2018
Cash flows from operating activities:						
Receipts from customers	\$ -	\$ 3,112	\$ 55,967	\$ 53,636	\$ 163,640	\$ 276,355
Receipts from federal government	11,239	-	-	-	-	11,239
Receipts from other funds	284	-	653	-	-	937
Other miscellaneous receipts	3,676	1	-	-	853	4,530
Acquisition of mortgage loans	-	(3,995)	(6,400)	-	(289,173)	(299,568)
Payments of Service Release Premiums	(522)	-	-	-	-	(522)
Payments to service mortgages	-	(102)	(547)	(767)	(3,523)	(4,939)
Payments to suppliers	(4,178)	-	(1,183)	-	-	(5,361)
Payments to other funds	-	-	-	-	(937)	(937)
Payments to or for employees	(16,134)	-	-	-	-	(16,134)
Net cash provided (used) by operating activities	(5,635)	(984)	48,490	52,869	(129,140)	(34,400)
Cash flows from non-capital financing activities:						
Operating grants received	223,870	2	-	-	-	223,872
Transfers in (out)	10,536	(4,576)	10,571	(773)	(15,758)	-
Proceeds from sale of bonds	-	-	-	-	307,116	307,116
Operating grants paid	(238,190)	-	-	-	-	(238,190)
Call premium paid	-	-	(14)	-	-	(14)
Cost of issuance paid	-	-	-	-	(2,440)	(2,440)
Principal payments	-	-	(90,875)	(45,795)	(121,615)	(258,285)
Interest paid	-	-	(11,823)	(10,559)	(39,480)	(61,862)
Net cash provided (used) by non-capital financing activities	(3,784)	(4,574)	(92,141)	(57,127)	127,823	(29,803)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	14,987	39,156	20,230	98,691	173,064
Purchases of investments	-	(14,974)	(40,127)	(24,062)	(107,058)	(186,221)
Investment interest received	129	110	2,373	474	1,946	5,032
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	15	81	62	277	435
Net cash provided (used) by investing activities	129	138	1,483	(3,296)	(6,144)	(7,690)
Net (decrease) in cash and cash equivalents	(9,290)	(5,420)	(42,168)	(7,554)	(7,461)	(71,893)
Cash and cash equivalents, July 1	31,366	20,592	90,056	40,300	186,608	368,922
Cash and cash equivalents, End of period	\$ 22,076	\$ 15,172	\$ 47,888	\$ 32,746	\$ 179,147	\$ 297,029

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2018

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2018
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (7,148)	\$ 3	\$ 3,720	\$ 2,575	\$ 11,153	\$ 10,303
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Changes in assets and liabilities:						
Decrease in accounts receivable	-	99	-	-	782	881
(Increase) decrease in mortgage interest receivable	-	(1)	639	501	(804)	335
(Increase) decrease in mortgage loans receivable	-	(978)	37,582	42,812	(177,770)	(98,354)
Decrease in due from federal government	84	-	-	-	-	84
Decrease in interfund receivables	284	-	653	-	-	937
(Decrease) in interfund payables	-	-	-	-	(937)	(937)
Increase (decrease) in accounts payable	3,149	11	(795)	332	7,578	10,275
(Decrease) in unearned service release premiums	(522)	-	-	-	-	(522)
(Decrease) in accrued payroll / compensated absences	(630)	-	-	-	-	(630)
(Decrease) in due to primary government	(723)	-	-	-	-	(723)
Investment income included as operating revenue	(129)	(118)	(316)	(231)	(867)	(1,661)
Interest expense included as operating expense	-	-	7,007	6,880	29,285	43,172
Issuance cost included as operating expense	-	-	-	-	2,440	2,440
Total adjustments	<u>1,513</u>	<u>(987)</u>	<u>44,770</u>	<u>50,294</u>	<u>(140,293)</u>	<u>(44,703)</u>
Net cash provided (used) by operating activities	<u>\$ (5,635)</u>	<u>\$ (984)</u>	<u>\$ 48,490</u>	<u>\$ 52,869</u>	<u>\$ (129,140)</u>	<u>\$ (34,400)</u>
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	-	(29)	(1,696)	(395)	(1,963)	(4,083)
Total noncash investing, capital, and financing activities	<u>\$ -</u>	<u>\$ (29)</u>	<u>\$ (1,696)</u>	<u>\$ (395)</u>	<u>\$ (1,963)</u>	<u>\$ (4,083)</u>

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the “Working Agreements”). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA’s security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA’s rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent’s privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the “O.A. Guide”), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA no longer has servicing agreements with outside entities. As of August 1, 2018, all servicing of THDA Program Loans is handled by Volunteer Mortgage Loan Servicing, a division of THDA. See Appendix G under the heading “Loan Servicing” for more information.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove and in Appendix G.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

TENNESSEE HOUSING DEVELOPMENT AGENCY General Residential Finance Program Bond Resolution

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the “General Residential Finance Program Bond Resolution.”

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

“*Account*” means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

“*Accountant*” means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

“*Act*” means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

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

“*Authorized Officer*” means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

“*Bond*” or “*Bonds*” means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

“*Bond Counsel's Opinion*” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

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

“*Bond Reserve Fund*” means the Bond Reserve Fund established pursuant to Section 5.1.

“*Bond Reserve Fund Requirement*” means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

“*Code*” means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

- (1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;
- (2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

"Program Security" means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

"Projected Cash Flow Statement" means a Certificate delivered pursuant to the provisions of Section 7.11.

"Rating Agency" means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody's and S&P.

"Redemption Account" means the Redemption Account which is established and created in the Revenue Fund pursuant to this Resolution.

"Redemption Date" means the date upon which Bonds are to be called for redemption pursuant to this Resolution.

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

"Refunding Bond" means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

"Resolution" means this Resolution and any amendments or supplements made in accordance with its terms.

"Revenue Fund" means the Revenue Fund established pursuant to Section 5.1.

"Revenues" means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

"S&P" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, and any successor.

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

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

"State" means the State of Tennessee.

"Supplemental Resolution" means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

"THDA" means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

"Trustee" means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI
REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

- (1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or
- (2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or
- (3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

- (1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;
- (2) by bringing suit upon the Bonds;
- (3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of or Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$823,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

Amount

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Outstanding as of June 30, 2018 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A	December 23, 2009	\$ 100,000,000	\$ --	\$ 8,445,000	3.96%
2010-A/ 2009-B, Subseries B-1	June 17, 2010	74,710,000	85,290,000	11,965,000	3.85
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	40,580,000	3.15
2011-A/ 2009-B, Subseries B-3	April 14, 2011	40,000,000	60,000,000	12,275,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	46,020,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,850,000	34,710,000	42,015,000	3.01
Issue 2015-A	May 28, 2015	<u>163,850,000</u>	--	<u>99,090,000</u>	2.78
TOTAL		<u>\$ 523,850,000</u>	<u>\$ 300,000,000</u>	<u>\$ 260,390,000</u>	

(1) Bond yield.

As of May 31, 2018 (unaudited), 3,006 mortgage loans in the approximate aggregate principal amount of \$249,782,519 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$617,690,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of June 30, 2018 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-1 ⁽²⁾	June 11, 2009	\$ 50,000,000	\$ 13,255,000 ⁽²⁾	4.39
2009-2	September 30, 2009	75,000,000	17,480,000	4.06
2010-1	October 13, 2010	120,700,000	33,435,000	3.57
2011-1	December 1, 2011	141,255,000	52,185,000	3.80
2012-1	July 19, 2012	133,110,000	59,395,000	3.26
2012-2	November 15, 2012	97,625,000	45,710,000	2.92
TOTAL		<u>\$ 617,690,000</u>	<u>\$ 221,460,000</u>	

(1) Bond yield.

(2) THDA issued Issue 2018-2 Bonds under the 2013 General Resolution in the aggregate principal amount of \$160,000,000 on June 12, 2018. On July 1, 2018, a portion of the proceeds generated from the sale of the Issue 2018-2 Bonds were used to refund all of the Issue 2009-1 bonds outstanding under the 1985 General Resolution.

As of May 31, 2018 (unaudited), 5,070 mortgage loans in the approximate aggregate principal amount of \$255,562,119 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets relating to bond proceeds, including mortgage loans, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution. Certain assets and investments not related to bond proceeds remain in the General Fund of the 1974 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. THDA established eligibility requirements for the mortgage credit certificate program and loans assisted with a mortgage credit certificate may not be funded with proceeds of qualified mortgage bonds such as the Issue 2018-3 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets, other than its mortgage assets (the “non-mortgage assets”). These non-mortgage assets are invested only in investments authorized by the Act, THDA’s investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA’s investment of THDA non-mortgage assets to the Executive Director of THDA.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bonds certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds certificates will be printed and delivered.

RESIDENTIAL FINANCE PROGRAM LOAN ORIGINATING AND SERVICING PROCEDURES

General

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2018-3 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

The THDA income limits range from \$60,900 to \$104,860 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

THDA self-services its entire mortgage loan portfolio through Volunteer Mortgage Loan Servicing ("VMLS"), a division of THDA. VMLS began servicing operations as of November 1, 2016, with the servicing of a small THDA mortgage loan portfolio previously serviced by Pinnacle Bank. Since June 1, 2018, all THDA Originating Agents transfer all servicing for new THDA Program Loans directly to VMLS. The remaining servicing portfolio previously serviced by U.S. Bank was transferred to VLMS on August 1, 2018. As of July 31, 2018, THDA withdrew approximately \$23,376,000 from the lien of the 1985 General Resolution in accordance with its terms to pay a one-time servicing release and transfer fee payment to U.S. Bank for acquisition of the servicing rights that were transferred to VLMS on August 1, 2018.

September 6, 2018

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$149,900,000 Issue 2018-3 (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$149,900,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2018-3 (Non-AMT) (the "Issue 2018-3 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2018-3 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on May 22, 2018, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on August 7, 2018 (together, the "Supplemental Resolution," and, together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2018-3 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2018-3 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2018-3 Bonds are being issued to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2018-3 Bonds in order that interest on the Issue 2018-3 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2018-3 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.
2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.

3. The Issue 2018-3 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2018-3 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2018-3 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.

6. The Issue 2018-3 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.

7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2018-3 Bonds is excluded from gross income of the owners thereof for federal income tax purposes; (ii) interest on the Issue 2018-3 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on the Issue 2018-3 Bonds will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code. No federal alternative minimum tax applies to corporations for tax years beginning after December 31, 2017.

8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2018-3 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2018-3 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2018-3 Bonds may have to take interest on such Issue 2018-3 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2018-3 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2018-3 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2018-3 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES**Delinquencies and Foreclosures as of March 31, 2018*

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.40%, based on a total of 14,705 Program Loans as of March 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	177	\$ 16,691,322	1.45%	0.90% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.59
Privately Insured	11	879,308	1.22	0.58
USDA/RD Guaranteed.....	15	950,559	1.81	⁽⁵⁾
Uninsured.....	3	189,182	0.63	⁽⁵⁾
TOTAL	<u>206</u>	<u>\$ 18,710,370</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.05%, based on a total of 14,705 Program Loans as of March 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	607	\$ 55,629,626	4.97%	1.60% ⁽⁴⁾
VA Guaranteed	19	1,399,344	6.74	1.17
Privately Insured	62	3,571,790	6.90	1.02
USDA/RD Guaranteed.....	39	2,434,199	4.72	⁽⁵⁾
Uninsured.....	15	799,807	3.17	⁽⁵⁾
TOTAL	<u>742</u>	<u>\$ 63,834,766</u> ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bond issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding loans financed pursuant to the 1974 General Resolution that were transferred to the General Resolution as of June 30, 2014.

The overall rate of Program Loans in foreclosure was 0.26%, based on a total of 14,705 Program Loans as of March 31, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2018, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	31	\$ 2,982,828	0.25%	0.48% ⁽⁴⁾
VA Guaranteed	1	117,136	0.35	0.78
Privately Insured	4	461,462	0.44	0.40
USDA/RD Guaranteed.....	2	156,295	0.24	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	38	\$ 3,717,722 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

Delinquencies and Foreclosures as of December 31, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.08%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	252	\$ 24,174,120	2.15%	1.24% ⁽⁴⁾
VA Guaranteed	4	245,240	1.47	0.82
Privately Insured	14	1,165,763	1.51	0.76
USDA/RD Guaranteed.....	21	1,298,996	2.69	(5)
Uninsured.....	3	147,257	0.67	(5)
TOTAL	294	\$ 27,031,376 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.44%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	628	\$ 56,810,693	5.36%	1.85% ⁽⁴⁾
VA Guaranteed	18	1,132,198	6.62	1.32
Privately Insured	67	4,094,874	7.22	1.13
USDA/RD Guaranteed.....	43	2,890,156	5.50	(5)
Uninsured.....	14	820,178	3.13	(5)
TOTAL	<u>770</u>	<u>\$ 65,748,099⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.33%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of December 31, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2017, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	40	\$ 3,982,561	0.34%	0.51% ⁽⁴⁾
VA Guaranteed	1	117,136	0.37	0.81
Privately Insured	4	463,572	0.43	0.40
USDA/RD Guaranteed.....	2	156,928	0.26	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>47</u>	<u>\$ 4,720,196⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of September 30, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.93%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	223	\$ 22,374,473	2.00%	1.38% ⁽⁴⁾
VA Guaranteed	2	157,772	0.76	0.80
Privately Insured	13	984,104	1.38	0.71
USDA/RD Guaranteed.....	17	1,150,950	2.21	⁽⁵⁾
Uninsured.....	7	473,226	1.60	⁽⁵⁾
TOTAL	<u>262</u>	<u>\$ 25,140,524⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.24%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	560	\$ 49,491,381	5.02%	1.92% ⁽⁴⁾
VA Guaranteed	20	1,301,089	7.60	1.31
Privately Insured	71	4,883,975	7.55	0.16
USDA/RD Guaranteed.....	46	3,324,364	5.99	⁽⁵⁾
Uninsured.....	13	629,014	2.97	⁽⁵⁾
TOTAL	<u>710</u>	<u>\$ 59,629,823⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total,

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.53%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2017 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2017, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	62	\$ 6,276,684	0.56%	0.43% ⁽⁴⁾
VA Guaranteed	2	273,802	0.76	0.80
Privately Insured	5	517,833	0.53	0.41
USDA/RD Guaranteed.....	3	240,117	0.39	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL.....	72	\$ 7,308,436 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of June 30, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.43%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	152	\$ 14,659,035	1.43%	0.91% ⁽⁴⁾
VA Guaranteed	1	111,713	0.38	0.72
Privately Insured	11	888,734	1.11	0.65
USDA/RD Guaranteed.....	18	1,232,049	2.34	(5)
Uninsured.....	5	295,682	1.17	(5)
TOTAL.....	187	\$ 17,187,214 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.00%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	515	\$ 44,653,653	4.84%	1.82% ⁽⁴⁾
VA Guaranteed	19	1,319,090	7.31	1.15
Privately Insured	67	4,729,147	6.76	1.09
USDA/RD Guaranteed.....	39	2,900,018	5.07	(5)
Uninsured.....	14	783,463	3.29	(5)
TOTAL	654	\$ 54,385,371 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.58%, based on a total of 13,081 Program Loans as of June 30, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of June 30, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2017, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	65	\$ 6,790,161	0.61%	0.58% ⁽⁴⁾
VA Guaranteed	2	273,802	0.77	0.84
Privately Insured	5	507,538	0.50	0.40
USDA/RD Guaranteed.....	4	287,204	0.52	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	76	\$ 7,858,705 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.



Tennessee Housing
Development Agency

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2018-4 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that interest on the Issue 2018-4 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"). In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2018-4 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2018-4 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds \$225,000,000 Issue 2018-4 (Non-AMT)

Dated: Date of Delivery

Due: As shown on inside front cover

The Issue 2018-4 Bonds (the "Issue 2018-4 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on January 1, 2019, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about November 15, 2018.

RAYMOND JAMES

CITIGROUP

RBC CAPITAL MARKETS

J.P. MORGAN

WELLS FARGO SECURITIES

J.J.B. HILLIARD, W.L. LYONS, LLC

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$225,000,000 Issue 2018-4 (Non-AMT)

\$43,265,000 Serial Bonds

<u>Year</u>	<u>Principal Amount Due January 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>	<u>Principal Amount Due July 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
2019				\$ 195,000	1.875 %	880461WA2
2020	\$ 1,520,000	2.000 %	880461WB0	1,540,000	2.100	880461WC8
2021	1,555,000	2.200	880461WD6	1,575,000	2.250	880461WE4
2022	1,595,000	2.350	880461WF1	1,615,000	2.400	880461WG9
2023	1,635,000	2.450	880461WH7	1,660,000	2.500	880461WJ3
2024	1,685,000	2.600	880461WK0	1,705,000	2.650	880461WL8
2025	1,725,000	2.750	880461WM6	1,755,000	2.800	880461WN4
2026	1,785,000	2.900	880461WP9	1,810,000	2.950	880461WQ7
2027	1,840,000	3.050	880461WR5	1,870,000	3.100	880461WS3
2028	1,900,000	3.150	880461WT1	1,935,000	3.200	880461WU8
2029	1,970,000	3.250	880461WV6	2,005,000	3.300	880461WW4
2030	2,040,000	3.350	880461WX2	2,080,000	3.400	880461WY0
2031	2,115,000	3.500	880461WZ7	2,155,000	3.500	880461XA1

\$181,735,000 Term Bonds

<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
July 1, 2033	\$ 9,050,000	3.650 %	880461XB9
July 1, 2038	26,220,000	3.900	880461XC7
July 1, 2043	26,615,000	4.000	880461XD5
January 1, 2049	33,650,000	4.050	880461XE3
July 1, 2049 (PAC)	86,200,000	4.500	880461XF0

PRICE OF ISSUE 2018-4 BONDS DUE JULY 1, 2049 (PAC): 107.475%

PRICE OF ALL REMAINING ISSUE 2018-4 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY
Residential Finance Program Bonds
\$225,000,000 Issue 2018-4 (Non-AMT)

INTRODUCTION

This Official Statement (the "Official Statement") provides certain information in connection with the issuance by the Tennessee Housing Development Agency ("THDA") of its Residential Finance Program Bonds, Issue 2018-4 in the aggregate principal amount of \$225,000,000 (the "Issue 2018-4 Bonds" or the "Offered Bonds").

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the "Act"). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the "General Resolution" or the "2013 General Resolution") and by a Resolution adopted by THDA on September 25, 2018, as amended and supplemented by the Bond Finance Committee of THDA (the "Bond Finance Committee") on October 3, 2018 (the "Issue 2018-4 Supplemental Resolution"). The General Resolution and the Issue 2018-4 Supplemental Resolution are herein collectively referred to as the "Resolution."

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2018-4 Bonds on September 24, 2018.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of August 31, 2018 (unaudited), Bonds in the aggregate principal amount of \$1,578,510,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$252,670,000 were outstanding under THDA's Housing Finance Program Resolution (the "2009 General Resolution"), and bonds in the aggregate principal amount of \$201,385,000 were outstanding under THDA's Homeownership Program Resolution (the "1985 General Resolution"). No bonds are outstanding under THDA's Housing Bond Resolution (Mortgage Finance Program) (the "1974 General Resolution"). For more information see "Other Financings—Housing Bond Resolution (Mortgage Finance Program)" in Appendix E.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption "SECURITY AND SOURCES OF PAYMENT OF BONDS". All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the "Bonds". The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the "Public Pledge Act"). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee's codification of Article 9 of the Uniform Commercial Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to

whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects that the proceeds of the Issue 2018-4 Bonds will be used to: (i) refund all Issue 2009-2 Bonds issued and outstanding under the 1985 General Resolution (the "Prior Bonds"), (ii) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (iii) pay capitalized interest, if any; (iv) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (v) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix G.

As a result of the refunding of the Prior Bonds, mortgage loans previously allocable to the Prior Bonds in an expected aggregate outstanding amount of approximately \$20,375,000 will be allocated to the Offered Bonds (the "Transferred Program Loans"). See "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS" for information about the Transferred Program Loans. In addition, other investments allocable to the Prior Bonds in the projected amount of approximately \$2,651,733 will be transferred to accounts established for the Offered Bonds under the General Resolution (the "Transferred Investments"). It is anticipated that the Prior Bonds will be redeemed prior to maturity on January 1, 2019, at the applicable redemption prices thereof plus accrued interest. No assurance can be provided that the Prior Bonds will actually be refunded.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution, including the Transferred Program Loans and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" shall include the Transferred Program Loans as well as new Program Loans (including participations therein) financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2018-4 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA does not intend to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance. While the Issue 2018-4 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of July 31, 2018 (unaudited), 15,993 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$1,622,939,836. Based on the outstanding principal balance of Program Loans as of July 31, 2018 (unaudited), approximately 87.65% were FHA insured, approximately 1.91% were VA guaranteed, approximately 4.16% were insured by private mortgage insurance companies, approximately 4.21% were

guaranteed by United States Department of Agriculture, Rural Development (“USDA/RD”), and approximately 2.08% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See “RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data” and Appendix B under the heading “Private Mortgage Insurance Programs”.

U.S. Bank National Association (the “Trustee”) is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2018-4 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2018-4 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D “2013 GENERAL RESOLUTION”. Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, (“DTC”), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F “BOOK-ENTRY-ONLY SYSTEM” for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2018-4 Bonds and is payable on January 1, 2019, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2018-4 Bonds maturing on July 1, 2033, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2032, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2018-4 Term Bonds Due July 1, 2033

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2032	\$ 2,195,000	\$ 2,240,000
2033	2,285,000	2,330,000 (maturity)

The Issue 2018-4 Bonds maturing on July 1, 2038, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2034, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2018-4
Term Bonds Due July 1, 2038**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2034	\$ 2,380,000	\$ 2,430,000
2035	2,480,000	2,535,000
2036	2,590,000	2,645,000
2037	2,700,000	2,760,000
2038	2,820,000	2,880,000 (maturity)

The Issue 2018-4 Bonds maturing on July 1, 2043, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2039, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2018-4
Term Bonds Due July 1, 2043**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2039	\$ 2,940,000	\$ 3,005,000
2040	2,835,000	2,385,000
2041	2,435,000	2,490,000
2042	2,545,000	2,605,000
2043	2,660,000	2,715,000 (maturity)

The Issue 2018-4 Bonds maturing on January 1, 2049, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2044, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2018-4
Term Bonds Due January 1, 2049**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2044	\$ 2,775,000	\$ 2,840,000
2045	2,905,000	2,965,000
2046	3,035,000	3,105,000
2047	3,175,000	3,240,000
2048	3,315,000	3,290,000
2049	3,005,000 (maturity)	

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The Issue 2018-4 Bonds maturing on July 1, 2049 (the “PAC Bonds”), are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2019, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2018-4
PAC Term Bonds Due July 1, 2049**

Year	Amount Due January 1	Amount Due July 1
2019		\$ 230,000
2020	\$ 700,000	715,000
2021	730,000	745,000
2022	760,000	775,000
2023	795,000	810,000
2024	825,000	845,000
2025	865,000	880,000
2026	900,000	920,000
2027	940,000	960,000
2028	980,000	1,000,000
2029	1,020,000	1,045,000
2030	1,065,000	1,085,000
2031	1,110,000	1,135,000
2032	1,160,000	1,195,000
2033	1,220,000	1,245,000
2034	1,270,000	1,295,000
2035	1,325,000	1,350,000
2036	1,370,000	1,400,000
2037	1,430,000	1,460,000
2038	1,490,000	1,520,000
2039	1,555,000	1,590,000
2040	1,745,000	1,780,000
2041	1,815,000	1,850,000
2042	1,890,000	1,925,000
2043	1,965,000	2,005,000
2044	2,045,000	2,085,000
2045	2,125,000	2,170,000
2046	2,210,000	2,255,000
2047	2,300,000	2,350,000
2048	2,395,000	2,445,000
2049	2,490,000	2,645,000 (maturity)

Optional Redemption. The Issue 2018-4 Bonds maturing on and after July 1, 2028, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after January 1, 2028, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2018-4 Principal Payments (as defined below). Any Excess 2018-4 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing January 1, 2019; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2018-4 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds are equal to or less than 400% PSA (as defined below under “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds”), as determined by THDA, then available Excess 2018-4 Principal Payments shall first be applied to redeem PAC Bonds up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the

remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds are in excess of 400% PSA, as determined by THDA, then available Excess 2018-4 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds shall first be applied to redeem PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “*Mandatory Redemption – 10 Year Rule*,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an “Excess Principal PAC Bond Redemption”); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2018-4 Principal Payments which is in excess of 400%* PSA, and (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds’ proportionate amount of all Issue 2018-4 Bonds then Outstanding.

“Excess 2018-4 Principal Payments” means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

“Planned Amortization Amount” means the dollar amount applicable to the PAC Bonds for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the PAC Bonds assumed to be redeemed from Excess 2018-4 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds. See “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds” for a description of PSA prepayment rates.

The Planned Amortization Amounts for the PAC Bonds (which assume the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedules

<u>Date</u>	<u>PAC Bonds Planned Amortization Amount</u>
July 1, 2019	\$ 2,275,000
January 1, 2020	4,870,000
July 1, 2020	8,640,000
January 1, 2021	13,530,000
July 1, 2021	19,455,000
January 1, 2022	25,890,000
July 1, 2022	32,125,000
January 1, 2023	38,090,000
July 1, 2023	43,785,000
January 1, 2024	49,215,000
July 1, 2024	54,395,000
January 1, 2025	59,330,000
July 1, 2025	64,020,000
January 1, 2026	68,470,000
July 1, 2026	72,690,000
January 1, 2027	76,685,000
July 1, 2027	80,460,000
January 1, 2028	84,020,000
July 1, 2028	86,200,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the PAC Bonds are redeemed from amounts on deposit in the Issue 2018-4 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds.”

Special Optional Redemption of the Offered Bonds, including Cross Calls. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading “DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds”; (ii) except as otherwise described under the headings “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and “ – Mandatory Redemption – 10 Year Rule”, repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, “Code”), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and (b) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bonds to exceed the Planned Amortization Amount shown above in the PAC Bonds Amortization Schedule. The Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph. See “ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments” and “ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices”.

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof financed with proceeds of the Offered Bonds (directly, or through a series of refundings) shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the related Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedule only if there are no other Offered Bonds outstanding.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans (or portions thereof) financed with proceeds of the Offered Bonds in accordance with the following approximate 10 year rule percentages to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Commencement Date</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
November 15, 2018	0.00 %
September 30, 2019	8.87
November 15, 2028	100.00 %

THDA will redeem the Offered Bonds in accordance with this schedule to the extent required to comply with the Code. THDA reserves the right to modify this schedule at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory redemption on July 1, 2019, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2018-4 Bonds Subaccount of the Loan Fund on June 1, 2019, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2018-4 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on May 1, 2022, to the extent any amounts remain on deposit in the Issue 2018-4 Bonds Subaccount of the Loan Fund on April 1, 2022.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding.

Selection By Lot

If less than all of the Issue 2018-4 Bonds of like maturity are to be redeemed, the particular Issue 2018-4 Bonds of such maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2018-4 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 225,000,000.00
Premium on PAC Bonds	6,443,450.00
Transferred Program Loans	20,375,000.00
Transferred Investments	<u>2,651,733.36</u>
TOTAL SOURCES	<u>\$ 254,470,183.36</u>

USES

Deposit to Loan Fund ⁽¹⁾	\$ 229,595,000.00
Redemption of Prior Bonds	15,780,000.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,000,000.00
Deposit to Bond Reserve Fund	6,468,238.36
Costs of Issuance	299,550.00
Underwriters' Fee	<u>1,327,395.00</u>
TOTAL USES	<u>\$ 254,470,183.36</u>

(1) Includes \$209,220,000 in proceeds from Issue 2018-4 plus approximately \$20,375,000 in Transferred Program Loans.

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the

Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumptions that (i) Transferred Program Loans in the aggregate principal amount of approximately \$20,375,000, with a weighted average maturity of approximately 250 months and a weighted average interest rate of approximately 5.14%, will be allocated to the Offered Bonds and (ii) THDA originates approximately \$209,220,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 4.61%. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2018-4 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA, including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" for descriptions of the various Program Loan products and Appendix G "RESIDENTIAL FINANCE PROGRAM LOAN ORIGINATING AND SERVICING PROCEDURES" for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2018-4 Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 4.61% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2018-4 Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2018-4 Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on September 6, 2018. As of September 25, 2018, THDA has committed a total principal amount of approximately \$29,927,445 of Program Loans which are Great Choice Program Loans and Homeownership for the Brave Program Loans that will be allocated to the Offered Bonds. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans". Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

The United States Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") in 2010, and may pass additional legislation impacting the origination and servicing of mortgage loans. Likewise, the Tennessee General Assembly may enact legislation relating to mortgage loan origination and

servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA's single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA's activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA's single-family loans could adversely affect the THDA's ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D "2013 GENERAL RESOLUTION"), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans (including Transferred Program Loans) will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds," "- Special Optional Redemption of the Offered Bonds, including Cross Calls" and "- Mandatory Redemption – 10-Year Rule".

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See "DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds."

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA's general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA's current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA's determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D “2013 GENERAL RESOLUTION” for a description of Program Expenses. THDA expects to use funds on deposit in the Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters' fees, initial Trustee's fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see “THDA – THDA Funds”. THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum; and (iii) funds on deposit in the Issue 2018-4 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term “weighted average life” refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association (“PSA”)) prepayment standard or model (commonly referred to as the “PSA Prepayment Model”).

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, “0% PSA” assumes no prepayments of principal on the Program Loans. “25% PSA” assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. “50% PSA” assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. “75% PSA” assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. “100% PSA” assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. “200% PSA” assumes the principal

of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. "300% PSA" assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. "400% PSA" assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. "500% PSA" assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors' housing needs, job transfers, unemployment and mortgagors' net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under "Changes in Federal or State Law" above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading "DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds", and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2018-4 Bond Subaccount of the Loan Fund is applied to finance Program Loans, (ii) approximately \$23,075,000 of Transferred Program Loans with an approximate weighted average maturity of 250 months and an approximate weighted average interest rate of 5.14% will be allocated to the Offered Bonds, (iii) Excess 2018-4 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iv) the PAC Bonds will be redeemed only in the Planned Amortization Amounts as described under the heading "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds" and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate. For certain information regarding Transferred Program Loans see "DESCRIPTION OF TRANSFERRED PROGRAM LOANS" herein.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>PAC Bond Average Life (in years)</u>
0%	18.4
25	12.9
50	8.4
75	6.2
100	5.0
200	5.0
300	5.0
400	5.0
500	4.3

RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

As of August 31, 2018, THDA has issued \$2,008,905,000 total original principal amount of bonds under the General Resolution, of which \$1,578,510,000 (unaudited) were outstanding as of August 31, 2018, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of August 31, 2018 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$ 94,660,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	65,335,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	86,700,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	103,840,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	115,095,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	138,630,000	3.25
Issue 2016-1	May 18, 2016	125,000,000	107,795,000	2.68
Issue 2016-2	October 18, 2016	125,000,000	112,050,000	2.68
Issue 2016-3	November 17, 2016	62,000,000	42,260,000	2.97
Issue 2017-1	March 30, 2017	100,000,000	92,690,000	3.15
Issue 2017-2	June 27, 2017	175,000,000	162,885,000	2.94
Issue 2017-3	September 28, 2017	99,900,000	98,660,000	3.03
Issue 2017-4	December 19, 2017	99,900,000	98,430,000	2.90
Issue 2018-1	March 29, 2018	99,900,000	99,480,000	3.33
Issue 2018-2	June 12, 2018	160,000,000	160,000,000	3.37
TOTAL		\$ 2,008,905,000	\$ 1,578,510,000	

(1) Bond yield.

Issue 2018-3 Bonds under the 2013 General Resolution in the aggregate principal amount of \$149,900,000 were issued on September 6, 2018, with an original net interest cost of 3.47%. All lendable proceeds from the sale of Issue 2018-3 will be used to purchase Program Loans that will be security for the Issue 2018-3 Bonds on parity with all other bonds then outstanding under the 2013 General Resolution.

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Origination Experience

THDA's experience from May 30, 2013, to August 31, 2018 (unaudited), regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

<u>Issue of Bonds</u>	<u>Lendable Proceeds⁽²⁾</u>	<u>Program Loans Financed⁽³⁾ as of August 31, 2018</u>		<u>Weighted Average Interest Rate⁽⁴⁾</u>
		<u>Amount</u>	<u>%</u>	
Issue 2013-1	\$ 135,268,395	\$ 135,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	92,340,000	92,340,000	100.00	3.98
Issue 2016-2	91,685,000	91,685,000	100.00	3.87
Issue 2017-1	102,200,000	102,200,000	100.00	4.15
Issue 2017-2	128,090,000	128,090,000	100.00	4.61
Issue 2017-3	90,500,000	90,500,000	100.00	4.62
Issue 2017-4	75,660,000	75,660,000	100.00	4.40
Issue 2018-1	102,600,000	102,600,000	100.00	4.39
Issue 2018-2	143,525,000	143,525,000	100.00	4.61
Issue 2018-3	151,916,000	79,999,950	52.66	4.61
TOTAL	\$ 1,689,584,875	\$ 1,617,668,666		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on September 6, 2018, and as of September 25, 2018, THDA has committed a total principal amount of approximately \$29,927,445 of Program Loans that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing the Offered Bonds, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. Effective as of August 1, 2018, the THDA Household Income Limits will range from \$60,900 to \$104,860 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2018-4 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee

by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance. While the Issue 2018-4 Supplemental Resolution provides that Program Loans, or participations therein, to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. Transferred Program Loans financed prior to September 30, 2013, are Great Rate, Great Advantage, Great Start or Homeownership for the Brave Program Loans. On and after October 1, 2013, the THDA primary loan program has included Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. Since October 1, 2013, THDA has provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below. As of March 1, 2017, THDA began providing additional downpayment and closing cost assistance through its Hardest Hit Fund Down Payment Assistance program as described below.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 4.625%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans. From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans in a principal amount equal to 4% of the purchase price of the property purchased. From October 1, 2014, to September 30, 2016, Great Choice Plus Loans were 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, each Great Choice Plus loan will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

Since October 3, 2016, Great Choice Plus Loans are thirty year 0% interest rate second lien loans in a principal amount up to 5% of the purchase price of the property purchased. No monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan, provided, however, that the full original principal amount will be forgiven at the end of the thirty year term.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA. THDA does not expect that Great Choice Plus loans will be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

Hardest Hit Fund Down Payment Assistance

In March 2017, THDA began providing \$15,000 in downpayment assistance from the fifth round of federal Hardest Hit Fund funding ("HHF-DPA") to eligible borrowers who qualify for THDA Great Choice loans and who are purchasing existing homes in one of fifty-five zip codes in thirty Tennessee counties. HHF-DPA is secured by a second deed of trust for a ten year term. HHF-DPA does not bear interest, and there are no monthly payments, but it is due on sale. HHF-DPA is forgiven at 20% per year in years six through ten. A THDA approved Homebuyer Education course is also required.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans are serviced by the Federation of Appalachian Housing Enterprises, Inc., as of January 1, 2015. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. As of December 1, 2016, the maximum loan amount was increased to \$123,750 for Maury, Williamson, Davidson, Rutherford, Wilson and Sumner Counties. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable.

As of July 31, 2018 (unaudited), 113 New Start Program Loans, with an aggregate principal balance of approximately \$5,268,520, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction. Eligible borrowers will also be eligible for Great Choice Plus loans.

As of July 31, 2018 (unaudited), 319 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$36,954,389, were outstanding under the General Resolution. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became transferred program loans allocable to the Issue 2013-1 Bonds under the General Resolution.

As of July 31, 2018 (unaudited), 158 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$8,655,374, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers prior to October 1, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds. THDA also provided downpayment and closing cost assistance in the form of a grant in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made.

As of July 31, 2018 (unaudited), 2,663 Great Rate, 129 Great Advantage, and 1,678 Great Start Program Loans, with an aggregate principal balance of approximately \$353,808,354, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Although Transferred Program Loans include Great Rate or Great Start Program Loans, THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of July 31, 2018 (unaudited), 15,993 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$1,622,939,836 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 313.36 months and an approximate weighted average interest rate of 4.53%.

Tables under this heading, "Residential Finance Program Portfolio Data", do not include data about Transferred Program Loans. For more information about Transferred Program Loans see "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS".

Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of July 31, 2018 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured	13,427	\$ 1,422,461,486	83.96%	87.65%
VA Guaranteed	312	30,953,521	1.95	1.91
Privately Insured	844	67,435,543	5.28	4.16
USDA/RD Guaranteed	891	68,327,764	5.57	4.21
Uninsured ⁽²⁾	519	33,761,521	3.25	2.08
TOTAL	15,993	\$ 1,622,939,836⁽⁴⁾	100.00%⁽⁴⁾	100.00%⁽⁴⁾

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution, either upon their direct transfer to the General Resolution or upon the refunding of other THDA obligations, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

As of July 31, 2018 (unaudited), 844⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$67,435,543 were outstanding under the General Resolution. As of July 31, 2018 (unaudited), THDA had the following information regarding the private mortgage insurers for 786 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance⁽⁴⁾</u>	<u>Percent of Total Number of Program Loans⁽⁴⁾</u>	<u>Percent of Total Outstanding Balance of Program Loans⁽⁴⁾</u>
Arch MI ⁽²⁾	120	\$ 9,418,538	0.75%	0.58%
Commonwealth/CMAC	3	72,663	0.02	0.00
Genworth Mortgage Insurance Corp. (GE)	331	27,191,669	2.07	1.68
MGIC	271	22,086,217	1.69	1.36
PMI Mortgage Insurance Co. ⁽³⁾	2	140,246	0.01	0.01
Radian Guaranty Inc.	5	312,072	0.03	0.02
Republic Mortgage Insurance Corporation	47	3,634,011	0.29	0.22
Triad Guaranty Insurance Corporation ⁽³⁾	7	422,559	0.04	0.03
TOTAL	786	\$ 63,277,975⁽⁵⁾	4.91%⁽⁵⁾	3.90%⁽⁵⁾

(1) The private mortgage insurer is not identified with respect to 58 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA began compiling data with respect to individual private mortgage insurance providers.

(2) Purchased United Guaranty Residential Insurance Co.

(3) Certain private mortgage insurance companies are under the oversight of their respective state insurance regulators and may pay claims at rates less than \$1.00 per \$1.00 of coverage.

(4) Rounded figures.

(5) Rounded total.

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Program Loan Interest Rates

The following table summarizes, as of July 31, 2018 (unaudited), the interest rates of the outstanding Program Loans:

Mortgage Rates (%)	Number of Program Loans⁽¹⁾	Outstanding Balance ⁽²⁾	Percent of Total Number of Program Loans⁽²⁾	Percent of Total Outstanding Balance ⁽²⁾
0.00-1.99	163	\$ 7,136,554	1.02%	0.44%
2.00-2.99	2	156,900	0.01	0.01
3.00-3.99	3,453	398,951,509	21.59	24.58
4.00-4.49	3,574	420,237,304	22.35	25.89
4.50-4.99	4,412	530,655,249	27.59	32.70
5.00-5.49	1,180	91,049,842	7.38	5.61
5.50-5.99	1,634	97,202,179	10.22	5.99
6.00-6.49	500	37,658,438	3.13	2.32
6.50-6.99	595	28,107,391	3.72	1.73
7.00-7.49	216	6,884,630	1.35	0.42
7.50-7.99	191	3,443,365	1.19	0.21
8.00-8.99	69	1,419,367	0.43	0.09
9.00-9.49	3	32,158	0.02	0.00
9.50-12.00	1	4,949	0.01	0.00
TOTAL	15,993	\$1,622,939,836⁽³⁾	100.00%⁽³⁾	100.00%⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have passed with no payment received by the last business day of the month in which the second payment was due are considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

The financial institutions who service Program Loans manage delinquencies by working with borrowers in an attempt to avoid defaults and by sending payment requests to borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

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Delinquencies and Foreclosures as of July 31, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.79%, based on a total of 15,993 Program Loans as of July 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of July 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JULY 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	250	\$ 24,912,246	1.86%	0.90% ⁽⁴⁾
VA Guaranteed	2	167,010	0.64	0.72
Privately Insured	9	784,627	1.07	0.64 ⁽⁵⁾
USDA/RD Guaranteed.....	22	1,472,784	2.47	(6)
Uninsured.....	4	240,953	0.77	(6)
TOTAL.....	<u>287</u>	<u>\$ 27,577,620⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.31%, based on a total of 15,993 Program Loans as of July 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of July 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JULY 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	563	\$ 52,232,622	4.19%	1.26% ⁽⁴⁾
VA Guaranteed	12	635,836	3.85	1.11
Privately Insured	63	3,585,511	7.46	0.95 ⁽⁵⁾
USDA/RD Guaranteed.....	37	2,397,609	4.15	(6)
Uninsured.....	14	742,415	2.70	(6)
TOTAL.....	<u>689</u>	<u>\$ 59,593,993⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.29%, based on a total of 15,993 Program Loans as of July 31, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of July 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2018, are as follows:

IN FORECLOSURE AS OF JULY 31, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	36	\$ 3,420,528	0.27%	0.45% ⁽⁴⁾
VA Guaranteed	3	201,479	0.96	0.75
Privately Insured	2	93,072	0.24	0.37 ⁽⁵⁾
USDA/RD Guaranteed.....	4	252,649	0.45	(6)
Uninsured.....	2	195,224	0.39	(6)
TOTAL.....	47	\$ 4,162,951 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS

General

As of July 31, 2018, the Transferred Program Loans have an approximate weighted average maturity of 254 months and a weighted average interest rate of 5.14% per annum. Average prepayment rate information for the Transferred Program Loans is discussed in "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS – Prepayment Experience of Transferred Program Loans" below. The Transferred Program Loans initially were financed with proceeds of THDA's Homeownership Program Bonds, Issue 2009-2, issued pursuant to the 1985 General Resolution (the "2009-2 Bonds") which Issue 2009-2 Bonds will be redeemed with proceeds of the Issue 2018-4 Bonds. It is anticipated that the characteristics of the pool of Transferred Program Loans will be substantially similar to the loans described below (such information below is as of July 31, 2018 (unaudited); the Transferred Program Loans will not be allocable to the Offered Bonds until November 15, 2018, and Transferred Program Loan characteristics may change from July 31, 2018, to November 15, 2018).

Transferred Program Loans by Loan Type

Type of Mortgage	Number	Principal Amount ⁽³⁾	% of Transferred Principal Amount
FHA Insured	207	\$ 17,850,462	84.14%
VA Guaranteed	0	0	0.00
Privately Insured ⁽¹⁾	0	0	0.00
USDA/RD Guaranteed.....	24	1,956,863	9.22
Uninsured ⁽²⁾	25	1,407,314	6.63
TOTAL	256	\$ 21,214,640 ⁽⁴⁾	100.00%

(1) This includes Program Loans for which private mortgage insurance was in place at the time of the closing of the respective Program Loan.

(2) Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, and Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Prepayment Experience of Transferred Program Loans

The Transferred Program Loans are composed of mortgage loans originally allocable to the 2009-2 Bonds. The table set forth below lists the actual average prepayment rate (principal only) experience as a percentage of the PSA Prepayment Model of the mortgage loans allocable to the 2009-2 Bonds for the 3 month, 6 month and 12 month periods ended on July 31, 2018, based on principal prepayment data available to THDA.

<u>Issue</u>	<u>3 Months</u>	<u>6 Months</u>	<u>12 Months</u>	<u>Since Inception</u>	<u>Weighted Average Interest Rate</u>
2009-2	157%	149%	178%	227%	5.14%

Delinquency Information for the Transferred Program Loans

The overall delinquency rate for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due was 3.52%, based on a total of 256 Transferred Program Loans as of July 31, 2018 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due as of July 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending June 30, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JULY 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	6	\$ 482,637	2.90%	0.90% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.72
Privately Insured	0	0	0.00	0.64 ⁽⁵⁾
USDA/RD Guaranteed.....	1	60,592	4.17	⁽⁶⁾
Uninsured.....	2	100,109	8.00	⁽⁶⁾
TOTAL	<u>9</u>	<u>\$ 643,338 ⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for the Transferred Program Loans that were ninety (90) days past due was 9.77%, based on a total of 256 Transferred Program Loans as of July 31, 2018 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were ninety (90) days past due as of July 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending June 30, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JULY 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	23	\$ 2,100,981	11.11%	1.26% ⁽⁴⁾
VA Guaranteed	0	0	0.00	1.11
Privately Insured	0	0	0.00	0.95 ⁽⁵⁾
USDA/RD Guaranteed.....	1	96,961	4.17	(6)
Uninsured.....	1	39,503	4.00	(6)
TOTAL	<u>25</u>	<u>\$ 2,234,445⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate of Transferred Program Loans in foreclosure was 1.17%, based on a total of 256 Transferred Program Loans as of July 31, 2018 (unaudited).

The foreclosure rate by loan type for the Transferred Program Loans in foreclosure as of July 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA, by loan type, for the quarter ending June 30, 2018, are shown in the following table:

IN FORECLOSURE AS OF JULY 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	2	\$ 234,486	0.97%	0.45% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.75
Privately Insured	0	0	0.00	0.37 ⁽⁵⁾
USDA/RD Guaranteed.....	1	76,183	4.17	(6)
Uninsured.....	<u>0</u>	<u>0</u>	0.00	(6)
TOTAL	<u>3</u>	<u>\$ 310,669⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the five most recent years and for the nine months ended March 31, 2018, and March 31, 2017. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2017, 2016, 2015, 2014, and 2013, and from unaudited financial information of THDA for the nine months ended March 31, 2018, and March 31, 2017.

	Nine Months Ended March 31 (Unaudited)				Year Ended June 30 (Audited)		
Residential Finance Bond Group	<u>2018</u>	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES:							
Interest on Mortgages	\$ 45,551	\$ 35,830	\$ 49,298	\$ 36,426	\$ 25,393	\$ 13,518	\$ 222
Investment Income:							
Interest	2,244	1,162	1,617	2,011	1,866	335	10
Net Increase (decrease) in the Fair Value of Investments	(1,377)	(938)	(792)	(320)	(552)	(146)	(83)
Fees and Other Income	<u>853</u>	<u>888</u>	<u>853</u>	<u>953</u>	<u>160</u>	<u>-</u>	<u>76</u>
	47,271	36,942	50,976	39,070	26,867	13,707	225
EXPENSES:							
Interest	29,285	22,224	30,542	24,876	17,058	9,087	551
Issuance Cost	2,440	2,322	3,602	2,311	2,343	2,167	1,679
Mortgage Servicing Fees	3,523	2,809	3,857	2,967	2,048	980	18
Other	<u>870</u>	<u>466</u>	<u>970</u>	<u>1,157</u>	<u>1,001</u>	<u>239</u>	<u>1</u>
	36,118	27,821	38,971	31,311	22,450	12,473	2,249
Excess of Revenues over Expenses	11,153	9,121	12,005	7,759	4,417	1,234	(2,024)
Net Position at beginning of period	176,030	116,295	116,295	101,055	105,707	(68,279)	-
Other Transfers	<u>5,579</u>	<u>26,450</u>	<u>47,730</u>	<u>7,481</u>	<u>(9,069)</u>	<u>172,752</u>	<u>(66,255)</u>
Net Position at end of period	<u>\$ 192,762</u>	<u>\$ 151,866</u>	<u>\$ 176,030</u>	<u>\$ 116,295</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>	<u>\$ (68,279) ⁽¹⁾</u>

⁽¹⁾ On May 30, 2013 THDA issued its Issue 2013-1 Bonds under the General Resolution. Proceeds of the Issue 2013-1 Bonds in an aggregate principal amount of \$75,905,000 were applied to the refunding of THDA's Issue 2003-A Bonds under the 1974 General Resolution and THDA's Issue 2004-1 Bonds under the 1985 General Resolution. While the Issue 2013-1 Bonds were issued on May 30, 2013, the assets allocable to the Issue 2003-A and the Issue 2004-1 Bonds in an aggregate amount of approximately \$99,855,200 did not transfer to the General Resolution until July 1, 2013, the date of the redemption of such bonds. As a result of such transfer, the net position of the General Resolution as of July 1, 2013, was approximately \$31,576,000 (unaudited).

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of July 31, 2018 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 5,804,304	\$ 56,737,437
Federal Home Loan Mortgage Corporation Notes	0	26,160,155
Fannie Mae Notes	49,651,366	8,371,674
Financing Corporation Bonds	0	2,263,981
TOTAL	<u>\$ 55,455,670</u>	<u>\$ 93,533,274</u>

As of July 31, 2018 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 2,265,070	\$ 36,677,733
Federal Home Loan Mortgage Corporation Notes	0	1,632,500
Fannie Mae Notes	0	8,371,674
TOTAL	<u>\$ 2,265,070</u>	<u>\$ 46,681,907</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2022.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of August 31, 2018 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$2,032,565,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for

reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors⁽¹⁾ are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Kim Grant Brown, Chairman	June 30, 2019	Owner, Grant & Company Collierville, TN
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Tre Hargett ⁽²⁾	January, 2021	Secretary of State
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
David H. Lillard, Jr. ⁽²⁾	January, 2019	State Treasurer
Larry Martin ⁽²⁾	(3)	Commissioner, Department of Finance and Administration
Austin McMullen	June 30, 2019	Member, Bradley Arant Boult Cummings LLP Nashville
Todd Skelton ⁽²⁾	(3)	Deputy Counsel to the Governor
John K. Snodderly	June 30, 2019	Executive Director, LaFollette Housing Authority LaFollette
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Pieter J. van Vuuren	June 30, 2019	President & CEO, First National Bank of McMinnville McMinnville, TN
Justin Wilson ⁽²⁾	January, 2019	Comptroller of the Treasury
Mary Mac R. Wilson	June 30, 2021	Director of Parish Operations, Roman Catholic Diocese of Knoxville, Knoxville, TN
Daisy Fields	(4)	Gallatin, TN

(1) One Board of Directors position appointed by the Governor is currently vacant.

(2) Ex officio member.

(3) Serves at pleasure of the Governor.

(4) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 248 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members⁽¹⁾ involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

(1) The position of Director of Volunteer Mortgage Loan Servicing is currently vacant.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Administration since September 2018. THDA employee since 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Operating Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010). B.S., Middle Tennessee State University.

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Conners & Berry (currently Bradley Arrant Boulton Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999); Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the “State”) amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

As of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ended June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees. Information about TCRS is available on the Tennessee Treasury website at www.treasury.tn.gov/tcrs.

The TCRS covers three large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 58,889 active members in TCRS in the state and higher education employee group at June 30, 2018. This total includes 248 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation for the defined benefit plan or contributions to a defined contribution plan.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age 60 or 30 years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute 5% of salary to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with an overall 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The defined benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age 65 or the rule of 90 (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan, requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for the Defined Benefit Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute to TCRS 19.23% of salary for the period July 1, 2018 through June 30, 2019, based on the July 1, 2017 actuarial valuation. The June 30, 2018, actuarial valuation will establish employer contribution rates for the period July 1, 2019 through June 30, 2020. General state employees do not contribute to this plan.

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2018 (measurement date of June 30, 2017), the net pension liability for the state and higher education employee group based on the market value of assets was \$1.79 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 88.88%.

Actuarial Data for the Defined Benefit Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, an actuarial valuation is performed to determine the employer contribution rate as well as the actuarially determined contribution (ADC) and the stabilization reserve rate. For the period July 1, 2018 through June 30, 2019, the overall 4% employer contribution rate to TCRS consists of 3.95% for general employees, with the employer rate for judicial and public safety employees being higher at 7.43% and 4.80%, respectively. The employer contribution rate for general employees of 3.95% consists of 1.66% for the ADC and 2.29% for the stabilization reserve.

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2018 (measurement date of June 30, 2017), the net pension asset for the state and higher education employee group based on the market value of assets was \$20.7 million, resulting in a plan fiduciary net position as a percentage of total pension liability of 131.51%.

THDA Employer Contributions for Pensions (Defined Benefit and Defined Contribution Plan)

For THDA, the employer contribution rate for employees hired before July 1, 2014, stated as a percentage of salary, is as follows: 19.23% for the period July 1, 2018 through June 30, 2019. For employees first hired after June 30, 2014, the employer rate is 8.95% for the period July 1, 2018 through June 30, 2019 (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions for the pension plans are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	THDA Employer Contributions to DC (Open Plan)	Percentage of THDA Budget
2019 ⁽¹⁾	19.23/9.00% ⁽²⁾	\$ 18,751,300 ⁽¹⁾	\$ 2,450,935 ⁽¹⁾	\$ 267,556	2.45% ⁽¹⁾
2018	18.87/9.00% ⁽²⁾	14,498,364	1,945,832	262,903	1.97
2017	15.02/9.00 ⁽²⁾	13,396,776 ⁽³⁾	1,577,092	183,030	1.53
2016	15.03/9.00 ⁽²⁾	11,965,554	1,581,407	100,999	1.38
2015	15.02/9.00 ⁽²⁾	11,569,902	1,673,881	28,731	1.21
2014	15.03	11,721,300	1,761,711		1.19
2013	15.03	11,315,872	1,692,847		1.26
2012	14.91	11,005,204	1,632,095		1.36
2011	14.91	10,593,944	1,585,654		1.25
2010	13.02	9,956,646	1,295,272		1.03

(1) Estimated; final amount anticipated to be lower due to unfilled positions, staff turnover and salaries at less than the maximum permitted.

(2) Varies depending on plan the employee is enrolled in.

(3) The increase in "Total Salary of THDA Employees" from the actual amount for the fiscal year ended June 30, 2016, to the actual amount for the fiscal years ended June 30, 2017, and June 30, 2018, is due to the additional salaries for approximately thirty-eight (38) positions THDA has filled and an additional fifteen (15) positions THDA expects to fill in connection with the servicing activities THDA is undertaking through Volunteer Mortgage Loan Servicing.

For the fiscal year ended June 30, 2018, the salary of THDA employees totaled \$14,498,364, which represents 0.48% of the \$3.0 billion of salary for all state and higher education employees in TCRS.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

General Information about the 401(k) and 457 Defined Contribution Plans

The state provides additional voluntary defined contribution plans to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Employee contribution limits to the 401(k) and 457 plans are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA. The THDA contribution for the fiscal year ended June 30, 2018 was \$75,204.37.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 45 and 74) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2015, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used a projected unit credit actuarial cost method, indicates that for the fiscal year ended June 30, 2017, the total unfunded actuarial liability of THDA is approximately \$2,923,000 and the annual required contribution for THDA is approximately \$353,000. The annual required contribution consists of the normal cost (the portion of the actuarial present value of OPEB benefits which is allocated to a valuation year by the actuarial cost method) and an amortization of the unfunded actuarial liability. The report may be reviewed at <https://www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-opeb.html>. The State did not pre-fund any actuarially determined OPEB liability, and continued to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for fiscal year ended June 30, 2017. The State charged THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that interest on the Issue 2018-4 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code. No federal alternative minimum tax applies to corporations for tax years beginning after December 31, 2017.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a "Premium Bond") over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or otherwise prevent beneficial owners of the Issue 2018-4 Bonds from realizing the full current benefit of the tax status of such interest, or adversely affect the market value of the Issue 2018-4 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Issue 2018-4 Bonds. Purchasers of the Issue 2018-4 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Issue 2018-4 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation, regulatory initiatives or litigation.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

Due to the ongoing uncertainty regarding the economy of the United States of America (including, without limitation, matters such as the current and future political uncertainty regarding the United States debt limit), obligations, such as the Offered Bonds, issued by state and local governments, and instrumentalities thereof, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and

ratings, liquidity, and market value of outstanding debt obligations, including the Offered Bonds. When certain automatic spending cuts are imposed on the federal government as a result of actions taken or not taken by the federal government (commonly referred to as a sequester) or when the federal government fails to pass certain spending authorizations prior to certain deadlines, resulting in a cessation of various governmental functions and operations (commonly referred to as a government shutdown), there may not be any immediate direct adverse impact on FHA, VA, RD or THDA. No assurance can be given, however, that a sequester or a government shutdown that lasts an extended period of time would continue to have no direct adverse impact upon the United States housing industry in general or THDA in particular.

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, THDA, in the Issue 2018-4 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2018-4 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MRSB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other

than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2018-4 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2018-4 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2018-4 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2018-4 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MRSB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2017, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the nine months ended March 31, 2018. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor

have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

Raymond James & Associates, Inc., Citigroup Global Markets Inc., RBC Capital Markets, LLC, J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and J.J.B. Hilliard, W.L. Lyons, LLC (collectively, the "Underwriters") have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$1,327,395. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

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

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Offered Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Offered Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Offered Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Offered Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other

affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Kim Grant Brown
Chair

/s/ Ralph M. Perrey
Executive Director



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, and the other postemployment benefits schedule of funding progress, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA
Director
December 11, 2017

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2017

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2017, with comparative information presented for the fiscal year ended June 30, 2016. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

Introduction – The Tennessee Housing Development Agency

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2017, THDA has originated over 116,000 single-family mortgage loans in its 44-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 74 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 400 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated*, Section 13-23-105). This board meets regularly on a bimonthly basis; however, some committees may meet more often as situations dictate.

Overview of the Financial Statements

The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows, as well as notes to the financial statements. The statements of net position provide financial information on the overall financial position of THDA at each year end. The statements of revenues, expenses, and changes in net position summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about THDA's cash receipts and cash payments during each fiscal year.

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discretely presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <http://www.tn.gov/finance/article/fa-accfin-cafr>.

Financial Highlights

Year Ended June 30, 2017

- Total assets increased by \$99.1 million, or 4.0%.
- Total liabilities increased by \$102.4 million, or 5.2%.
- Net position was \$510.0 million. This is a decrease of \$1.0 million, or 0.2%, from fiscal year 2016.
- Cash and cash equivalents increased by \$137.3 million, or 59.2%.
- Total investments decreased by \$68.5 million, or 24.9%.
- Bonds payable increased by \$74.0 million, or 3.9%.
- THDA originated \$325.9 million in new loans, which is an increase of \$32.4 million, or 11.0%, from the prior year.

Financial Analysis of the Agency

Net Position – The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	2017	2016
Current assets	\$ 427,265	\$ 393,675
Capital assets	1,809	1,175
Other noncurrent assets	2,146,413	2,081,560
Total assets	2,575,487	2,476,410
Deferred outflows of resources	4,726	3,142
Current liabilities	185,772	149,798
Noncurrent liabilities	1,883,961	1,817,534
Total liabilities	2,069,733	1,967,332
Deferred inflows of resources	514	1,288
Invested in capital assets	1,809	1,175
Restricted net position	430,633	430,114
Unrestricted net position	77,524	79,643
Total net position	\$ 509,966	\$ 510,932

2017 to 2016

THDA's total net position decreased by \$1.0 million because operating income was less than the amount by which nonoperating expenses exceeded nonoperating revenues.

First and second mortgage loans (net of allowance for forgivable second mortgages) receivable increased by \$31.7 million. During fiscal year 2017, single-family mortgage loan originations increased by \$32.4 million, whereas mortgage loan payoffs decreased by \$23.1 million and mortgage loan repayments decreased \$2.4 million. In addition, THDA recognized an allowance for future forgiveness of forgivable second mortgages of \$10.0 million for fiscal year 2017.

Total liabilities increased \$102.4 million. The increase is primarily due to a \$74.0 million increase of bonds payable at June 30, 2017, as compared to June 30, 2016.

Changes in Net Position – The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	2017	2016
Operating revenues		
Mortgage interest income	\$ 87,963	\$ 90,235
Investment income	1,743	5,872
Other	18,546	17,052
Total operating revenues	108,252	113,159
Operating expenses		
Interest expense	56,892	62,045
Other	41,980	41,916
Total operating expenses	98,872	103,961
Operating income	9,380	9,198
Nonoperating revenues (expenses)		
Grant revenues	277,877	269,226
Grant expenses	(288,223)	(281,899)
Total nonoperating revenues (expenses)	(10,346)	(12,673)
Change in net position	\$ (966)	\$ (3,475)

2017 to 2016

Total operating revenues decreased \$4.9 million, primarily due to a decrease in investment income of \$4.1 million. During fiscal year 2017, certain long-term investments with high interest yields matured, which were re-invested into other investments having contemporary investment yields. In addition, fair value of investments decreased by \$3.8 million in fiscal year 2016 and decreased by \$5.6 million in fiscal year 2017.

Total operating expenses decreased \$5.1 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate.

Debt Activity – Bonds outstanding at June 30 were as follows (expressed in thousands):

	2017	2016
Bonds payable	\$1,980,456	\$1,906,494

Year Ended June 30, 2017

Total bonds payable increased \$74.0 million, which is deemed an insignificant year-over-year variance. During the fiscal year, THDA issued debt totaling \$462.0 million, with activity arising from four bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$47.7 million of outstanding bonds into new bond originations with lower interest rates. In addition to the nominal tax-exempt mortgage revenue bonds issued, THDA also issued one taxable bond issue primarily for economic refunding opportunities.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard & Poor's Ratings Services (S&P), a division of The McGraw-Hill Companies, Inc., has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

There were no revisions to THDA's bond ratings during fiscal year 2017 or fiscal year 2016.

Debt Limits

In accordance with *Tennessee Code Annotated*, Section 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

Grant Programs

During fiscal year 2007 through fiscal year 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors allocated additional THDA funds for grants. These funds established a grant program that was titled by THDA the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

	2017	2016	2015 and Prior	Total
Funding Sources:				
THDA	\$7,500,000	\$7,500,000	\$59,800,000	\$74,800,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	\$7,500,000	\$7,500,000	\$64,150,000	\$79,150,000
Approved Uses:				
Rural repair program (USDA)	\$ -	\$ -	\$ 6,300,000	\$ 6,300,000
Ramp Programs & Hsg Modification	300,000	-	1,350,000	1,650,000
Emergency Repairs	2,700,000	2,700,000	15,800,000	21,200,000
Competitive Grants	3,500,000	2,800,000	34,800,000	41,100,000
Rebuild & Recover	500,000	500,000	2,800,000	3,800,000
Other Grants	500,000	1,500,000	3,100,000	5,100,000

Totals	\$7,500,000	\$7,500,000	\$64,150,000	\$79,150,000

Current Mortgage Products and Environment

In October of 2013, THDA made a significant change to its mortgage lending program. On October 1, 2013, the Great Choice and the Great Choice Plus loan programs were introduced and the Great Rate, Great Advantage, and Great Start loan programs were eliminated. The Great Choice loan program offers THDA the opportunity to offer a more competitive interest rate on its 30-year fixed rate mortgage product while still offering down payment assistance with the addition of the Great Choice Plus loan program, which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the Great Choice Plus loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15. Subsequently, in October of 2016, the Great Choice Loan product was revised to feature a 30-year forgiveness requirement, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced or otherwise paid in full within the first 30 years of closing.

A special interest rate reduction on the Great Choice loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as “Homeownership for the Brave,” provides a 0.5% rate reduction on the current interest rate for Great Choice loans. In addition to the rate reduction, Homeownership for the Brave applicants are eligible for optional down payment and closing cost assistance through the Great Choice Plus second mortgage loan at a 0% interest rate.

All first mortgage loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages, interest-only mortgages, “buy-down” loans, mortgages with a future lump-sum payment due (balloon-type mortgages), or with other similar mortgage terms. THDA does not make or purchase “sub-prime” mortgage loans. Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by Standard & Poor’s Rating Group. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae

or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have LTV ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's Internet site at <https://thda.org/homebuyers/homebuyers>.

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2017, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principle Amount Outstanding	Percentage ¹
60 – 89 Days Past Due	23,187	413	\$ 33,195,660	1.78%
90+ Days Past Due	23,187	1,388	108,494,506	5.99%
In Foreclosure	23,187	163	15,139,374	0.69%

Economic Factors

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a benchmark, THDA uses the one-, three-, and five-year Constant Maturity Treasury rates as established by the United States Treasury.

The continuation of relatively low interest rates from a historic perspective increases the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

Direct Loan Servicing

During FY 2017, THDA began the direct servicing of mortgage loans under the name of Volunteer Mortgage Loan Servicing ("VMLS"). On November 1, 2016, the servicing of approximately 1,800 THDA mortgage loans having an outstanding principal balance of \$91.5 million was transferred to VMLS from an existing THDA mortgage servicer.

Contacting THDA's Financial Management

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends.

¹ Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

If you have questions about this report or need additional financial information, contact Trent Ridley, Chief Financial Officer, at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2017
(Expressed in Thousands)

ASSETS

Current assets:		
Cash and cash equivalents (Note 2)	\$	262,872
Investments (Note 2)		61,346
Receivables:		
Accounts		993
Interest		11,531
First mortgage loans		62,336
Due from federal government		28,186
Prepaid expenses		<u>1</u>
Total current assets		<u>427,265</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		106,050
Investments (Note 2)		95,738
Investment interest receivable		881
Investments (Note 2)		49,135
First mortgage loans receivable		1,870,877
Second mortgage loans receivable		30,559
Allowance for forgivable second mortgages		(9,984)
Advance to local government		3,124
Net pension asset (Note 5)		33
Capital assets:		
Furniture and equipment		3,565
Less accumulated depreciation		<u>(1,756)</u>
Total noncurrent assets		<u>2,148,222</u>
Total assets		<u>2,575,487</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refundings		862
Deferred outflows related to pensions (Note 5)		<u>3,864</u>
Total deferred outflows of resources		<u>4,726</u>

LIABILITIES

Current liabilities:		
Accounts payable		13,359
Accrued payroll and related liabilities		632
Compensated absences		667
Due to primary government		723
Interest payable		29,855
Escrow deposits		1,536
Prepayments on mortgage loans		1,279
Due to federal government		26,301
Bonds payable (Note 3)		<u>111,420</u>
Total current liabilities		<u>185,772</u>
Noncurrent liabilities:		
Bonds payable (Note 3)		1,869,036
Compensated absences		647
Net pension liability (Note 5)		7,652
Net OPEB obligation (Note 9)		1,661
Escrow deposits		3,855
Arbitrage rebate payable		<u>1,110</u>
Total noncurrent liabilities		<u>1,883,961</u>
Total liabilities		<u>2,069,733</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 5)		<u>514</u>
Total deferred inflows of resources		<u>514</u>

NET POSITION

Net investment in capital assets		1,809
Restricted for single family bond programs (Note 4 and Note 7)		418,137
Restricted for grant programs (Note 4)		9,310
Restricted for Homebuyers Revolving Loan Program (Note 4)		3,153
Restricted for net pension asset (Note 5)		33
Unrestricted (Note 7)		<u>77,524</u>
Total net position	\$	<u>509,966</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

OPERATING REVENUES

Mortgage interest income	\$ 87,963
Investment income:	
Interest	7,319
Net (decrease) in the fair value of investments	(5,576)
Federal grant administration fees	13,784
Fees and other income	4,762
Total operating revenues	<u>108,252</u>

OPERATING EXPENSES

Salaries and benefits	18,404
Contractual services	5,665
Materials and supplies	1,576
Rentals and insurance	25
Other administrative expenses	694
Other program expenses	5,273
Interest expense	56,892
Mortgage service fees	6,391
Issuance costs	3,602
Depreciation	350
Total operating expenses	<u>98,872</u>
Operating income	<u>9,380</u>

NONOPERATING REVENUES (EXPENSES)

Federal grants revenue	277,873
Other grants revenue	4
Federal grants expenses	(277,717)
Local grants expenses	(10,506)
Total nonoperating revenues (expenses)	<u>(10,346)</u>
Change in net position	<u>(966)</u>
Total net position, July 1	<u>510,932</u>
Total net position, June 30	<u>\$ 509,966</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 386,565
Receipts from federal government	13,867
Receipts from other funds	551
Other miscellaneous receipts	4,762
Acquisition of mortgage loans	(325,857)
Payments to service mortgages	(6,391)
Payments to suppliers	(9,197)
Payments to federal government	(3,684)
Payments to other funds	(551)
Payments to or for employees	(18,852)
Net cash provided by operating activities	<u>41,213</u>
Cash flows from non-capital financing activities:	
Operating grants received	300,591
Proceeds from sale of bonds	473,792
Operating grants paid	(285,422)
Call premium paid	(36)
Cost of issuance paid	(3,602)
Principal payments	(393,570)
Interest paid	(65,442)
Net cash provided by non-capital financing activities	<u>26,311</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(983)
Net cash used by capital and related financing activities	<u>(983)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	389,882
Purchases of investments	(327,170)
Investment interest received	7,780
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	219
Net cash provided by investing activities	<u>70,711</u>
Net increase in cash and cash equivalents	137,252
Cash and cash equivalents, July 1	<u>231,670</u>
Cash and cash equivalents, June 30	\$ <u>368,922</u>

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ <u>9,380</u>
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Depreciation	350
Changes in assets and liabilities:	
Decrease in accounts receivable	3,067
Decrease in mortgage interest receivable	398
(Increase) in pension asset	(20)
(Increase) in deferred pension outflows	(1,703)
(Increase) in mortgage loans receivable	(31,780)
Decrease in due from federal government	83
Increase in accounts payable	3,395
Increase in accrued payroll /	
compensated absences	176
Increase in due to primary government	651
(Decrease) in arbitrage rebate liability	(2,984)
Increase in pension liability	2,223
(Decrease) in deferred pension inflows	(774)
Investment income included as operating revenue	(1,743)
Interest expense included as operating expense	56,892
Issuance cost included as operating expense	<u>3,602</u>
Total adjustments	<u>31,833</u>
Net cash provided by operating activities	\$ <u><u>41,213</u></u>
Noncash investing, capital, and financing activities:	
(Decrease) in fair value of investments	\$ <u>(3,111)</u>
Total noncash investing, capital, and financing activities	\$ <u><u>(3,111)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee Housing Development Agency (THDA) was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as ex officio board members of the agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and Title 24, *Code of Federal Regulations*, Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

THDA is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds

Notes to the Financial Statements (Continued)

and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, the Tax and Insurance Holding/Escrow account, Payment Clearing and Disbursement accounts, and Net Pension Assets (see note 4).

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

The Tax and Insurance Holding/Escrow account is used to service mortgage accounts. These funds are tax and insurance escrows held on behalf of various mortgagors from payments collected on mortgages. The agency is obligated to expend these monies on escrowed items. The Payment Clearing and Disbursement accounts are also used to service mortgages.

Deferred Amount on Refundings and Bond Premiums and Discounts

Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.

Notes to the Financial Statements (Continued)

Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

Mortgages

Mortgages are carried at their original amount less collected principal.

Loan Servicing

On November 1, 2016, THDA began servicing the mortgage loans previously serviced by an approved THDA Loan Servicer and in May of 2017 began servicing the loans originated from THDA's Originating Agents.

Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds.

Notes to the Financial Statements (Continued)

outstanding. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Allowance for Forgivable Second Mortgages

THDA has offered the Down Payment Assistance product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period.

Beginning in April 2017 this product changed to 100% forgivable second mortgage loan for the 30-year term of the first mortgage. It is 100% repayable in the event the home is sold, refinanced or owners move out of the home. Because of the likelihood that the majority of second mortgage loans will be repaid in the course of the 30-year term, the allowance account established for the second mortgage loans beginning October 2014 will not be used for any second mortgages made after March 2017.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Note 2. Deposits and Investments

Deposits

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

Notes to the Financial Statements (Continued)

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2017, the bank balance was \$32,272,907. This amount includes \$1,744,933; which is held in a T&I Escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf. All bank balances at June 30, 2017, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2017, \$28,690,966 was in the BNYM. Of this amount, \$28,440,966 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the State of Tennessee Treasurer's Report. That report is available on the state's website at www.treasury.tn.gov.

Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk – Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Notes to the Financial Statements (Continued)

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

June 30, 2017		
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$124,172,337	1.728
U.S. Treasury Coupon	27,114,235	2.056
U.S. Agency Discount	162,862,870	0.084
Total	\$314,149,442	0.905

Fair Value Measurements – THDA implemented GASB Statement 72, *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2017, (expressed in thousands):

June 30, 2017				
Assets by Fair Value Level	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Agency Coupon	\$124,172	\$ -	\$124,172	\$ -
U.S. Treasury Coupon	27,114	27,114	-	-
U.S. Agency Discount	162,863	-	162,863	-
Total debt securities	\$314,149	\$27,114	287,035	\$ -

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets as those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets as those securities. Level 3 valuations are derived from valuation techniques in which significant inputs are unobservable.

Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to the Investments section of Note 1 for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2017, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

Notes to the Financial Statements (Continued)

June 30, 2017					
Investment Type	Fair Value	U.S. Treasury ¹	AAA	AA+	Not Rated ²
U.S. Agency Coupon	\$124,172,337	\$ -	\$ -	\$121,738,787	\$ 2,433,550
U.S. Treasury Coupon	27,114,235	27,114,235	-	-	-
U.S. Agency Discount	162,862,870	-	-	-	162,862,870
Total	\$314,149,442	\$27,114,235	\$-	\$121,738,787	\$165,296,420

In addition to these investments, the agency has \$229,226,502 invested in a money market fund. This fund is measured at amortized cost and has a Standard and Poors rating of AAA.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

June 30, 2017		
Issuer	<u>Fair Value</u> <u>(Thousands)</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$178,179	56.72
Federal Home Loan Mortgage Corp.	\$31,734	10.10
Federal National Mortgage Assoc.	\$74,688	23.77

GASB 79 Disclosures – During fiscal year 2016, THDA implemented GASB Statement 79, *Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that THDA participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of \$5 million or more.

Note 3. Liabilities

Bonds Issued and Outstanding

Homeownership Program Bonds				Ending Balance 6/30/2017
Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	(Thousands)
2007-4	1/1/2009 – 7/1/2038	150,000	3.75 to 5.50	23,110
2008-1	7/1/2009 – 1/1/2039	60,000	2.45 to 5.70	12,920
2009-1	1/1/2010 – 7/1/2029	50,000	0.75 to 5.00	17,060

¹ This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

² This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

Notes to the Financial Statements (Continued)

2009-2	7/1/2010 – 7/1/2030	75,000	0.90 to 5.00	22,125
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50	43,110
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65	77,430
2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50	71,785
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00	55,795
Total Homeownership Program Bonds		\$827,690		\$ 323,335
Plus: Unamortized Bond Premiums				2,817
Net Homeownership Program Bonds				<u>\$326,152</u>

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2017 (Thousands)
2009-A	1/1/2011 – 1/1/2040	\$100,000	0.90 to 4.625	\$ 11,265
2010-A	1/1/2011 – 7/1/2041	160,000	0.60 to 5.00	16,840
2010-B	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	49,435
2011-A	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	14,900
2011-B	7/1/2012 – 7/1/2041	100,000	0.25 to 4.50	54,985
2011-C	7/1/2012 – 7/1/2041	100,000	0.40 to 4.30	52,385
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	118,405
Total Housing Finance Program Bonds		\$810,000		\$318,215
Plus: Unamortized Bond Premiums				3,521
Net Housing Finance Program Bonds				<u>\$321,736</u>

Residential Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2017 (Thousands)
2013-1	1/1/2014 – 7/1/2043	\$ 215,905	0.40 to 4.00	\$ 122,355
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	79,315
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	110,980
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	122,025
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	135,000
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	157,285
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	117,765
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	120,775
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	62,000
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	100,000
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	175,000
Total Residential Finance Program Bonds		\$1,549,205		\$1,302,500
Plus: Unamortized Bond Premiums				30,079
Net Residential Finance Program Bonds				<u>\$1,332,579</u>
Net Total All Bonds				<u>\$1,980,467</u>

Housing Finance Program Bonds – The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New

Notes to the Financial Statements (Continued)

Issue Bond Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

Debt Service Requirements

Debt service requirements to maturity at June 30, 2017, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2018	\$ 40,650	\$ 62,967	\$ 103,617
2019	70,865	65,092	135,957
2020	73,235	63,386	136,621
2021	77,710	61,470	139,180
2022	76,730	59,291	136,021
2023 – 2027	387,255	259,290	646,545
2028 – 2032	379,994	193,992	573,986
2033 – 2037	374,226	123,720	497,946
2038 – 2042	331,540	57,686	389,226
2043 - 2047	131,845	10,269	142,114
Total	\$1,944,050	\$957,163	\$2,901,213

Redemption of Bonds and Notes

During the year ended June 30, 2017, bonds were retired at par before maturity in the Homeownership Program in the amount of \$97,236,000, in the Housing Finance Program in the amount of \$70,510,000, and in the Residential Finance Program in the amount of \$111,550,000.

Notes to the Financial Statements (Continued)

The respective carrying values of the bonds were \$98,407,537, \$71,242,629 and \$114,475,759. This resulted in revenue to the Homeownership Program of \$1,171,537, to the Housing Finance Program of \$732,629, and to the Residential Finance Program of \$2,925,759.

On May 18, 2016, the agency issued \$125,000,000 in Residential Finance Program Bonds, Issue 2016-1. On July 1, 2016, the agency used \$24,060,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$24,060,000 early redemption). The carrying amount of these bonds was \$24,060,000. The refunding increased the agency's debt service by \$5,737,592 over the next 20.00 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$3,034,466.

On October 18, 2016, the agency issued \$125,000,000 in Residential Finance Program Bonds, Issue 2016-2. On January 1, 2017, the agency used \$24,205,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$24,205,000 early redemption). The carrying amount of these bonds was \$24,205,000. The refunding reduced the agency's debt service by \$292,971 over the next 20.00 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$3,273,731.

On November 16, 2016, the agency issued \$62,000,000 in Residential Finance Program Bonds, Issue 2016-3. On January 1, 2017, the agency used \$62,000,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$62,000,000 early redemption). The carrying amount of these bonds was \$63,848,048. The refunding reduced the agency's debt service by \$29,424,149 over the next 20.125 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$16,645,830.

On March 30, 2017, the agency issued \$100,000,000 in Residential Finance Program Bonds, Issue 2017-1.

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2017 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2016	Additions	Reductions	Ending Balance June 30, 2017	Amounts Due Within One Year ³
Bonds Payable	\$1,875,620	\$462,000	(\$393,570)	\$1,944,050	\$111,420,
Plus: Unamortized Bond Premiums	30,916	11,995	(6,505)	36,406	-
Less: Unamortized Bond Discounts	(42)	-	42	-	-
Compensated Absences	1,244	70	-	1,314	667
Net Pension Liability	5,429	3,784	(1,561)	7,652	-
Escrow Deposits	3,437	4,798	(2,844)	5,391	1,536

³Amounts due within one year include management authorized bond refundings at June 30.

Notes to the Financial Statements (Continued)

Arbitrage Rebate Payable	4,094	700	(3,684)	1,110	-
Total	\$1,920,698	\$483,347	(\$408,122)	\$1,995,923	\$113,623

Note 4. Restricted Net Position

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

Note 5. Pension Plans

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Notes to the Financial Statements (Continued)

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. THDA employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2017, to the Closed State and Higher Education Employee Pension Plan were \$1,542,218, which is 15.02 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2017, THDA reported a liability of \$7,652,061 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial

valuation as of that date. THDA's proportion of the net pension liability was based on a projection of THDA's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, THDA's proportion was 0.419391 percent. The proportion measured as of June 30, 2015, was 0.421046.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, THDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 429,122	\$ 406,599
Net difference between projected and actual earnings on pension plan investments	1,850,632	-
Changes in proportion	-	103,989
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2016	1,542,218	-
Total	\$3,821,972	\$510,588

Deferred outflows of resources, resulting from THDA's employer contributions of \$1,542,218 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$63,089
2019	63,089
2020	1,105,389
2021	537,600
2022	-
Thereafter	-

Actuarial assumptions – The total pension liability as of the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Notes to the Financial Statements (Continued)

Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012, actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-

Notes to the Financial Statements (Continued)

term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents THDA's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what THDA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension liability	\$15,037,844	\$7,652,061	1,424,149

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2017, THDA reported a payable of \$61,261 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2017.

State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description – State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under *Tennessee Code Annotated* Title 8, Chapters 34-37.

Benefits provided – *Tennessee Code Annotated* Title 8, Chapters 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation by 1.0 percent multiplied by member's years of service credit. A reduced early retirement benefit is available at age 60 with

Notes to the Financial Statements (Continued)

5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2017, to the State and Higher Education Employee Retirement Plan were \$34,927, which is 1.14 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Asset, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2017, THDA reported an asset of \$33,000 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA's proportion of the net pension asset was based on a projection of THDA's contributions during the year ended June 30, 2016, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2016, measurement date, THDA's proportion was 0.391715 percent. The proportion measured as of June 30, 2015, was 0.457171.

Notes to the Financial Statements (Continued)

Pension expense – For the year ended June 30, 2017, THDA recognized a pension expense of \$18,614. Allocated pension expense was \$18,475 before being increased by \$139 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2017, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,401	\$3,546
Net difference between projected and actual earnings on pension plan investments	3,848	-
Changes in proportion	1,110	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2016	34,927	-
Total	\$42,286	\$3,546

Deferred outflows of resources, resulting from THDA's employer contributions of \$34,927 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$ 934
2019	934
2020	934
2021	776
2022	(68)
Thereafter	303

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension asset as of the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.5 percent

Mortality rates were customized based on the June 30, 2012, actuarial experience study and included some adjustment for expected future improvement in life expectancy.

Notes to the Financial Statements (Continued)

The actuarial assumptions used in the June 30, 2016, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012; (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents THDA's proportionate share of the net pension asset calculated using the discount rate of 7.5 percent, as well as what THDA's proportionate share of the net pension asset

Notes to the Financial Statements (Continued)

would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Housing Development Agency's proportionate share of the net pension asset	\$3,946	\$33,000	\$54,766

Payable to the Pension Plan

At June 30, 2017, THDA reported a payable of \$1,820 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2017 for both defined benefit pension plans was \$1,303,618.

Note 6. Deferred Compensation Plans

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code, Section 457, and the other pursuant to *Internal Revenue Code* (IRC), Section 401(k). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The THDA provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The THDA recognized a pension expense of \$262,539 for employer contributions.

Notes to the Financial Statements (Continued)

The THDA recognized a pension payable of \$13,001 for employer contributions

Note 7. Provisions for Mortgage Loan Losses

Most mortgage loans are insured by the Federal Housing Administration, an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

Note 8. Insurance-Related Activities

Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property; crime and fidelity coverage on the state's officials and employees; and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

Notes to the Financial Statements (Continued)

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2017, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2017, the Risk Management Fund held \$167 million in cash designated for payment of claims.

Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 9. Other-Postemployment Benefits

Healthcare is the only other postemployment benefit (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides postemployment health insurance benefits to eligible THDA retirees. This program includes two plans—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated*, Section 8-27-201. Prior to reaching the age of 65, members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. Any employee hired on or after July 1, 2015, is not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Notes to the Financial Statements (Continued)

Special Funding Situation – The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including THDA (see Note 10). The state is the sole contributor for the THDA retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy – The premium requirements of plan members of the State Employment Group Plan are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, retirees in the State Employee Group Plan who have not reached the age of 65 pay the same base premium as active employees in the plan, adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 25 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium. Retirees 65 years of age or older are provided flat-rate premium subsidies, based on years of service. Retirees with 30 years of service receive \$50 per month; retirees with 25 but less than 30 years of service, \$37.50; and retirees with 15 but less than 20 years of service, \$25.

THDA Annual OPEB Cost and Net OPEB Obligation State Employee Group Plan (Thousands)

	June 30, 2017
Annual Required Contribution (ARC)	\$353
Interest on the Net OPEB Obligation	60
Adjustment to the ARC	(60)
Annual OPEB cost	353
Amount of contribution	(294)
Increase in Net OPEB Obligation	59
Net OPEB Obligation-beginning of year	1,602
Net OPEB Obligation-end of year	\$1,661

Year End	Plan	Annual OPEB Cost (Thousands)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End (Thousands)
6/30/2017	State Employee Group Plan	\$353	83%	\$1,661
6/30/2016	State Employee Group Plan	\$341	74%	\$1,602
6/30/2015	State Employee Group Plan	\$357	71%	\$1,516

Funded Status and Funding Progress – The funded status of THDA's portion of the State Employee Group Plan as of July 1, 2015, was as follows (expressed in thousands):

Actuarial valuation date	7/01/2015
Actuarial accrued liability (AAL)	\$ 2,923
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 2,923
Actuarial value of assets as a % of the AAL	0%

Notes to the Financial Statements (Continued)

Covered payroll (active plan members)	\$10,046
UAAL as a percentage of covered payroll	29%

Actuarial valuations involve estimates of the value of reported amounts and probability assumptions far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions – Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2015, actuarial valuation for the Employee Group Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreases to 6% in fiscal year 2016, and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

Note 10. On-Behalf Payments

During the year ended June 30, 2017, the State of Tennessee made payments of \$7,163 on behalf of THDA for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 11. Payments to Primary Government

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157

Notes to the Financial Statements (Continued)

from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

Note 12. Subsequent Events

Residential Finance Program Bonds, Issue 2017-3, were sold on September 28, 2017. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2017-3	7/1/2018 – 1/1/2048	\$99,900,000	0.800 to 3.650

Residential Finance Program Bonds, Issue 2017-4, were authorized by the board of directors on September 22, 2017, not to exceed \$100,000,000. The sale of the bonds will occur no later than February 28, 2018.

In order to preserve Tax-Exempt Private Activity Bond volume capacity, Residential Finance Program Convertible Option Bonds, Issue 2017-5, were authorized by the board of directors on November 14, 2017, not to exceed \$900,000,000. The sale of the bonds will occur no later than December 31, 2017.

Note 13. Events (Unaudited) Subsequent to the Date of the Independent Auditor's Report

Residential Finance Program Bonds, Issue 2017-4, were sold on December 19, 2017. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2017-4	7/1/2018 – 7/1/2048	\$99,900,000	0.950 to 4.000

Due to final tax law changes, THDA did not close Issue 2017-5.

Residential Finance Program Bonds, Issue 2018-1, were authorized by the board of directors on January 23, 2018, not to exceed \$150,000,000. The sale of the bonds will occur no later than June 30, 2018.

Residential Finance Program Bonds, Issue 2018-2, were authorized by the board of directors on March 27, 2018, not to exceed \$175,000,000. The sale of the bonds will occur no later than June 30, 2018.

Notes to the Financial Statements (Continued)

Residential Finance Program Bonds, Issue 2018-1, were sold on March 29, 2018. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2018-1	1/1/2019 – 1/1/2043	\$99,900,000	1.400 to 4.000

Residential Finance Program Bonds, Issue 2018-3, were authorized by the board of directors on May 22, 2018, not to exceed \$150,000,000. The sale of the bonds will occur no later than October 31, 2018.

Residential Finance Program Bonds, Issue 2018-2, were sold on June 12, 2018. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2018-2	1/1/2019 – 1/1/2049	\$160,000,000	1.750 to 4.000

On July 27, 2018, THDA requested to withdrew approximately \$23,376,000 of excess funds from the Homeownership Program Bond Resolution to fund the acquisition of servicing rights from U.S. Bank. On July 30, 2018, THDA wired \$15,585,487 to U.S. Bank as a one-time servicing release and transfer fee payment. On August 6, 2018, THDA transferred \$7,902,932 to Volunteer Mortgage Loan Servicing (VMLS) to fund the VMLS Escrow Account for escrow advances.

Residential Finance Program Bonds, Issue 2018-3, were sold on September 6, 2018. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2018-3	7/1/2019 – 7/1/2049	\$149,900,000	1.500 to 4.250

Residential Finance Program Bonds, Issue 2018-4, were authorized by the board of directors on September 25, 2018, not to exceed \$225,000,000. The sale of the bonds will occur no later than December 31, 2018.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA's Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
2017	0.391715%	\$33	\$1,661	1.99%	130.56%
2016	0.457171%	\$13	\$498	2.60%	142.55%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.419391%	\$7,652	\$10,240	74.73%	87.96%
2016	0.421046%	5,429	10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
State and Higher Education Employee Retirement Plan

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2017	\$35	\$35	\$-	\$3,068	1.14%
2016	47	47	-	1,661	2.81%
2015	19	19	-	498	3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2017	\$1,542	\$1,542	\$-	\$10,268	15.02%
2016	1,539	1,539	-	10,240	15.03%
2015	1,652	1,652	-	10,994	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%
2009	1,201	1,201	-	9,224	13.02%
2008	1,297	1,297	-	9,522	13.62%

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Other Postemployment Benefits Schedule of Funding Progress

(Expressed in Thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2015	State Employee Group Plan	\$-	\$2,923	\$2,923	0%	\$10,046	29%
7/1/2013	State Employee Group Plan	\$-	\$2,964	\$2,964	0%	\$ 9,841	30%
7/1/2011	State Employee Group Plan	\$-	\$2,919	\$2,919	0%	\$ 9,818	30%

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 942	\$ 20,592	\$ 42,719	\$ 32,791	\$ 165,828	\$ 262,872
Investments	-	598	9,620	4,577	46,551	61,346
Receivables:						
Accounts	-	211	-	-	782	993
Interest	-	19	2,561	2,560	6,391	11,531
First mortgage loans	156	2,087	17,772	9,326	32,995	62,336
Due from federal government	28,186	-	-	-	-	28,186
Due from other funds	1,863	-	-	-	427	2,290
Prepaid expenses	1	-	-	-	-	1
Total current assets	31,148	23,507	72,672	49,254	252,974	429,555
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	30,424	-	47,337	7,509	20,780	106,050
Investments	-	-	56,784	13,697	25,257	95,738
Investment Interest receivable	-	-	769	48	64	881
Investments	-	1,787	-	-	47,348	49,135
First mortgage loans receivable	544	47,969	328,173	310,642	1,183,549	1,870,877
Second mortgage loans receivable	-	-	30,559	-	-	30,559
Allowance for forgivable second	-	-	(9,984)	-	-	(9,984)
Advance to local government	3,124	-	-	-	-	3,124
Net pension asset	33	-	-	-	-	33
Capital assets:						
Furniture and equipment	3,565	-	-	-	-	3,565
Less accumulated depreciation	(1,756)	-	-	-	-	(1,756)
Total noncurrent assets	35,934	49,756	453,638	331,896	1,276,998	2,148,222
Total assets	67,082	73,263	526,310	381,150	1,529,972	2,577,777
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	222	-	640	862
Deferred outflows related to pension	3,864	-	-	-	-	3,864
Total deferred outflows of resources	3,864	-	222	-	640	4,726
LIABILITIES						
Current liabilities:						
Accounts payable	11,307	2	1,221	779	50	13,359
Accrued payroll and related liability	632	-	-	-	-	632
Compensated absences	667	-	-	-	-	667
Due to primary government	723	-	-	-	-	723
Interest payable	-	-	6,463	5,414	17,978	29,855
Escrow deposits	1,536	-	-	-	-	1,536
Prepayments on mortgage loans	10	-	235	175	859	1,279
Due to federal government	26,301	-	-	-	-	26,301
Due to other funds	-	-	2,290	-	-	2,290
Bonds payable	-	-	52,990	13,485	44,945	111,420
Total current liabilities	41,176	2	63,199	19,853	63,832	188,062
Noncurrent liabilities:						
Bonds payable	-	-	273,162	308,251	1,287,623	1,869,036
Compensated absences	647	-	-	-	-	647
Net pension liability	7,652	-	-	-	-	7,652
Net OPEB obligation	1,661	-	-	-	-	1,661
Escrow deposits	608	120	-	-	3,127	3,855
Arbitrage rebate payable	-	-	1,110	-	-	1,110
Total noncurrent liabilities	10,568	120	274,272	308,251	1,290,750	1,883,961
Total liabilities	51,744	122	337,471	328,104	1,354,582	2,072,023
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pension	514	-	-	-	-	514
Total deferred inflows of resources	514	-	-	-	-	514
NET POSITION						
Net investment in capital assets	1,809	-	-	-	-	1,809
Restricted for single family bond program	-	-	189,061	53,046	176,030	418,137
Restricted for grant programs	-	9,310	-	-	-	9,310
Restricted for Homebuyers Revolving Fund	3,153	-	-	-	-	3,153
Restricted for net pension asset	33	-	-	-	-	33
Unrestricted	13,693	63,831	-	-	-	77,524
Total net position	\$ 18,688	\$ 73,141	\$ 189,061	\$ 53,046	\$ 176,030	\$ 509,966

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ -	\$ 44	\$ 22,459	\$ 16,162	\$ 49,298	\$ 87,963
Investment income:						
Interest	71	110	4,863	658	1,617	7,319
Net (decrease) in the fair value of investments	-	(6)	(4,464)	(314)	(792)	(5,576)
Federal grant administration fees	13,784	-	-	-	-	13,784
Fees and other income	3,909	-	-	-	853	4,762
Total operating revenues	17,764	148	22,858	16,506	50,976	108,252
OPERATING EXPENSES						
Salaries and benefits	18,404	-	-	-	-	18,404
Contractual services	5,664	-	-	-	1	5,665
Materials and supplies	1,576	-	-	-	-	1,576
Rentals and insurance	25	-	-	-	-	25
Other administrative expenses	694	-	-	-	-	694
Other program expenses	602	2	3,440	260	969	5,273
Interest expense	10	-	15,401	10,939	30,542	56,892
Mortgage service fees	-	106	1,232	1,196	3,857	6,391
Issuance costs	-	-	-	-	3,602	3,602
Depreciation	350	-	-	-	-	350
Total operating expenses	27,325	108	20,073	12,395	38,971	98,872
Operating income (loss)	(9,561)	40	2,785	4,111	12,005	9,380
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	277,873	-	-	-	-	277,873
Other grant revenue	-	4	-	-	-	4
Federal grants expenses	(277,717)	-	-	-	-	(277,717)
Local grants expenses	(10,506)	-	-	-	-	(10,506)
Total nonoperating revenues (expenses)	(10,350)	4	-	-	-	(10,346)
Income (loss) before transfers	(19,911)	44	2,785	4,111	12,005	(966)
Transfers (to) other funds	-	-	(64,508)	(1,276)	-	(65,784)
Transfers from other funds	17,899	155	-	-	47,730	65,784
Change in net position	(2,012)	199	(61,723)	2,835	59,735	(966)
Total net position, July 1	20,700	72,942	250,784	50,211	116,295	510,932
Total net position, June 30	\$ 18,688	\$ 73,141	\$ 189,061	\$ 53,046	\$ 176,030	\$ 509,966

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ 2,050	\$ 2,725	\$ 125,063	\$ 80,599	\$ 176,128	\$ 386,565
Receipts from federal government	13,867	-	-	-	-	13,867
Receipts from other funds	326	-	225	-	-	551
Other miscellaneous receipts	3,909	-	-	-	853	4,762
Acquisition of mortgage loans	-	(5,052)	(20,848)	-	(299,957)	(325,857)
Payments to service mortgages	-	(106)	(1,232)	(1,196)	(3,857)	(6,391)
Payments to suppliers	(8,271)	(2)	-	-	(924)	(9,197)
Payments to federal government	-	-	(3,684)	-	-	(3,684)
Payments to other funds	-	-	-	-	(551)	(551)
Payments to or for employees	(18,852)	-	-	-	-	(18,852)
Net cash provided (used) by operating activities	(6,971)	(2,435)	99,524	79,403	(128,308)	41,213
Cash flows from non-capital financing activities:						
Operating grants received	300,587	4	-	-	-	300,591
Transfers in (out)	17,898	155	88,447	(1,276)	(105,224)	-
Proceeds from sale of bonds	-	-	-	-	473,792	473,792
Operating grants paid	(285,422)	-	-	-	-	(285,422)
Call premium paid	-	-	-	-	(36)	(36)
Cost of issuance paid	-	-	-	-	(3,602)	(3,602)
Principal payments	-	-	(210,180)	(70,790)	(112,600)	(393,570)
Interest paid	(10)	-	(21,529)	(13,009)	(30,894)	(65,442)
Net cash provided (used) by non-capital financing activities	33,053	159	(143,262)	(85,075)	221,436	26,311
Cash flows from capital and related financing activities:						
Purchases of capital assets	(983)	-	-	-	-	(983)
Net cash used by capital and related financing activities	(983)	-	-	-	-	(983)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	34,940	161,404	37,423	156,115	389,882
Purchases of investments	-	(23,270)	(115,803)	(26,865)	(161,232)	(327,170)
Investment interest received	71	120	5,285	648	1,656	7,780
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	7	54	39	119	219
Net cash provided (used) by investing activities	71	11,797	50,940	11,245	(3,342)	70,711
Net increase in cash and cash equivalents	25,170	9,521	7,202	5,573	89,786	137,252
Cash and cash equivalents, July 1	6,196	11,071	82,854	34,727	96,822	231,670
Cash and cash equivalents, June 30	\$ 31,366	\$ 20,592	\$ 90,056	\$ 40,300	\$ 186,608	\$ 368,922

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2017
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (9,561)	\$ 40	\$ 2,785	\$ 4,111	\$ 12,005	\$ 9,380
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	350	-	-	-	-	350
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	232	148	2,235	537	(85)	3,067
(Increase) decrease in mortgage interest receivable	-	-	1,956	456	(2,014)	398
(Increase) in pension asset	(20)	-	-	-	-	(20)
(Increase) in deferred pension outflows	(1,703)	-	-	-	-	(1,703)
(Increase) decrease in mortgage loans receivable	-	(2,041)	79,260	62,946	(171,945)	(31,780)
Decrease in due from federal government	83	-	-	-	-	83
Decrease in interfund receivables	326	-	225	-	-	551
(Decrease) in interfund payables	-	-	-	-	(551)	(551)
Increase (decrease) in accounts payable	1,107	(478)	1,045	758	963	3,395
Increase in accrued payroll / compensated absences	176	-	-	-	-	176
Increase in due to primary government	651	-	-	-	-	651
(Decrease) in arbitrage rebate liability	-	-	(2,984)	-	-	(2,984)
Increase in pension liability	2,223	-	-	-	-	2,223
(Decrease) in deferred pension inflows	(774)	-	-	-	-	(774)
Investment income included as operating revenue	(71)	(104)	(399)	(344)	(825)	(1,743)
Interest expense included as operating expense	10	-	15,401	10,939	30,542	56,892
Issuance cost included as operating expense	-	-	-	-	3,602	3,602
Total adjustments	2,590	(2,475)	96,739	75,292	(140,313)	31,833
Net cash provided (used) by operating activities	\$ (6,971)	\$ (2,435)	\$ 99,524	\$ 79,403	\$ (128,308)	\$ 41,213
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	\$ -	\$ (3)	\$ (834)	\$ (181)	\$ (2,093)	\$ (3,111)
Total noncash investing, capital, and financing activities	\$ -	\$ (3)	\$ (834)	\$ (181)	\$ (2,093)	\$ (3,111)

***UNAUDITED FINANCIAL
INFORMATION***

March 31, 2018

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

	March 31, 2018					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2018
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,352	\$ 15,172	\$ 21,166	\$ 32,362	\$ 177,840	\$ 248,892
Investments	-	599	-	1,198	31,752	33,549
Receivables:						
Accounts	-	112	-	-	-	112
Interest	-	29	1,922	2,061	7,278	11,290
First mortgage loans	156	2,171	14,803	8,181	37,360	62,671
Due from federal government	21,617	-	-	-	-	21,617
Due from other funds	1,579	-	-	-	1,364	2,943
Prepaid Expenses	1	-	-	-	-	1
Total current assets	25,705	18,083	37,891	43,802	255,594	381,075
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	19,724	-	26,722	384	1,307	48,137
Investments	-	-	65,530	20,518	47,017	133,065
Investment interest receivable	-	-	477	129	279	885
Investments	-	1,757	-	-	47,100	48,857
First mortgage loans receivable	535	48,863	267,714	268,975	1,378,291	1,964,378
Second mortgage loans receivable	-	-	35,068	-	-	35,068
Allowance for forgivable second mortgages	-	-	(9,984)	-	-	(9,984)
Unearned Service Release Premiums	522	-	-	-	-	522
Advance to local government	3,133	-	-	-	-	3,133
Net pension asset	33	-	-	-	-	33
Capital assets:						
Furniture and equipment	3,565	-	-	-	-	3,565
Less accumulated depreciation	(1,756)	-	-	-	-	(1,756)
Total noncurrent assets	25,756	50,620	385,527	290,006	1,473,994	2,225,903
Total assets	51,461	68,703	423,418	333,808	1,729,588	2,606,978
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	235	-	449	684
Deferred outflows related to pensions	3,864	-	-	-	-	3,864
Total deferred outflows of resources	3,864	-	235	-	449	4,548
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 6,703	\$ 13	\$ 480	\$ 1,137	\$ 2,388	\$ 10,721
Accrued payroll and related liabilities	2	-	-	-	-	2
Compensated absences	667	-	-	-	-	667
Interest payable	-	-	2,244	2,319	11,447	16,010
Escrow deposits	1,087	-	-	-	-	1,087
Prepayments on mortgage loans	-	-	181	149	941	1,271
Due to federal government	18,860	-	-	-	-	18,860
Due to other funds	-	-	2,943	-	-	2,943
Bonds payable	-	-	21,550	14,005	52,665	88,220
Total current liabilities	27,319	13	27,398	17,610	67,441	139,781
Noncurrent liabilities:						
Bonds payable	-	-	213,130	261,350	1,461,549	1,936,029
Compensated absences	647	-	-	-	-	647
Net pension liability	7,652	-	-	-	-	7,652
Net OPEB obligation	1,661	-	-	-	-	1,661
Escrow deposits	987	120	-	-	8,285	9,392
Arbitrage rebate payable	-	-	1,110	-	-	1,110
Total noncurrent liabilities	10,947	120	214,240	261,350	1,469,834	1,956,491
Total liabilities	38,266	133	241,638	278,960	1,537,275	2,096,272
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	514	-	-	-	-	514
Total deferred inflows of resources	514	-	-	-	-	514
NET POSITION						
Net investment in capital assets	1,809	-	-	-	-	1,809
Restricted for single family bond programs	-	-	182,015	54,848	192,762	429,625
Restricted for grant programs	-	13,751	-	-	-	13,751
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for pension asset	33	-	-	-	-	33
Unrestricted	11,550	54,819	-	-	-	66,369
Total net position	\$ 16,545	\$ 68,570	\$ 182,015	\$ 54,848	\$ 192,762	\$ 514,740

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2018

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2018
OPERATING REVENUES						
Mortgage interest income	\$ 10	\$ -	\$ 11,400	\$ 10,143	\$ 45,551	\$ 67,104
Investment income:						
Interest	129	120	2,080	558	2,244	5,131
Net increase (decrease) in the fair value of investments	-	(2)	(1,764)	(327)	(1,377)	(3,470)
Federal grant administration fees	11,155	-	-	-	-	11,155
Fees and other income	3,676	1	-	-	853	4,530
Total operating revenues	14,970	119	11,716	10,374	47,271	84,450
OPERATING EXPENSES						
Salaries and benefits	15,220	-	-	-	-	15,220
Contractual services	4,717	-	-	-	135	4,852
Materials and supplies	1,280	-	-	-	-	1,280
Rentals and insurance	8	-	-	-	-	8
Other administrative expenses	560	-	-	-	-	560
Other program expenses	333	14	442	152	735	1,676
Interest expense	-	-	7,007	6,880	29,285	43,172
Mortgage service fees	-	102	547	767	3,523	4,939
Issuance costs	-	-	-	-	2,440	2,440
Total operating expenses	22,118	116	7,996	7,799	36,118	74,147
Operating income (loss)	(7,148)	3	3,720	2,575	11,153	10,303
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	224,826	-	-	-	-	224,826
Other grant revenue	-	2	-	-	-	2
Federal grants expenses	(224,832)	-	-	-	-	(224,832)
Local grants expenses	(5,525)	-	-	-	-	(5,525)
Total nonoperating revenues (expenses)	(5,531)	2	-	-	-	(5,529)
Income (loss) before transfers	(12,679)	5	3,720	2,575	11,153	4,774
Transfers (to) other funds	-	(4,576)	(10,766)	(773)	-	(16,115)
Transfers from other funds	10,536	-	-	-	5,579	16,115
Change in net position	(2,143)	(4,571)	(7,046)	1,802	16,732	4,774
Total net position, July 1	18,688	73,141	189,061	53,046	176,030	509,966
Total net position, End of period	\$ 16,545	\$ 68,570	\$ 182,015	\$ 54,848	\$ 192,762	\$ 514,740

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2018

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2018
Cash flows from operating activities:						
Receipts from customers	\$ -	\$ 3,112	\$ 55,967	\$ 53,636	\$ 163,640	\$ 276,355
Receipts from federal government	11,239	-	-	-	-	11,239
Receipts from other funds	284	-	653	-	-	937
Other miscellaneous receipts	3,676	1	-	-	853	4,530
Acquisition of mortgage loans	-	(3,995)	(6,400)	-	(289,173)	(299,568)
Payments of Service Release Premiums	(522)	-	-	-	-	(522)
Payments to service mortgages	-	(102)	(547)	(767)	(3,523)	(4,939)
Payments to suppliers	(4,178)	-	(1,183)	-	-	(5,361)
Payments to other funds	-	-	-	-	(937)	(937)
Payments to or for employees	(16,134)	-	-	-	-	(16,134)
Net cash provided (used) by operating activities	(5,635)	(984)	48,490	52,869	(129,140)	(34,400)
Cash flows from non-capital financing activities:						
Operating grants received	223,870	2	-	-	-	223,872
Transfers in (out)	10,536	(4,576)	10,571	(773)	(15,758)	-
Proceeds from sale of bonds	-	-	-	-	307,116	307,116
Operating grants paid	(238,190)	-	-	-	-	(238,190)
Call premium paid	-	-	(14)	-	-	(14)
Cost of issuance paid	-	-	-	-	(2,440)	(2,440)
Principal payments	-	-	(90,875)	(45,795)	(121,615)	(258,285)
Interest paid	-	-	(11,823)	(10,559)	(39,480)	(61,862)
Net cash provided (used) by non-capital financing activities	(3,784)	(4,574)	(92,141)	(57,127)	127,823	(29,803)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	14,987	39,156	20,230	98,691	173,064
Purchases of investments	-	(14,974)	(40,127)	(24,062)	(107,058)	(186,221)
Investment interest received	129	110	2,373	474	1,946	5,032
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	15	81	62	277	435
Net cash provided (used) by investing activities	129	138	1,483	(3,296)	(6,144)	(7,690)
Net (decrease) in cash and cash equivalents	(9,290)	(5,420)	(42,168)	(7,554)	(7,461)	(71,893)
Cash and cash equivalents, July 1	31,366	20,592	90,056	40,300	186,608	368,922
Cash and cash equivalents, End of period	\$ 22,076	\$ 15,172	\$ 47,888	\$ 32,746	\$ 179,147	\$ 297,029

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2018

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2018
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (7,148)	\$ 3	\$ 3,720	\$ 2,575	\$ 11,153	\$ 10,303
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Changes in assets and liabilities:						
Decrease in accounts receivable	-	99	-	-	782	881
(Increase) decrease in mortgage interest receivable	-	(1)	639	501	(804)	335
(Increase) decrease in mortgage loans receivable	-	(978)	37,582	42,812	(177,770)	(98,354)
Decrease in due from federal government	84	-	-	-	-	84
Decrease in interfund receivables	284	-	653	-	-	937
(Decrease) in interfund payables	-	-	-	-	(937)	(937)
Increase (decrease) in accounts payable	3,149	11	(795)	332	7,578	10,275
(Decrease) in unearned service release premiums	(522)	-	-	-	-	(522)
(Decrease) in accrued payroll / compensated absences	(630)	-	-	-	-	(630)
(Decrease) in due to primary government	(723)	-	-	-	-	(723)
Investment income included as operating revenue	(129)	(118)	(316)	(231)	(867)	(1,661)
Interest expense included as operating expense	-	-	7,007	6,880	29,285	43,172
Issuance cost included as operating expense	-	-	-	-	2,440	2,440
Total adjustments	<u>1,513</u>	<u>(987)</u>	<u>44,770</u>	<u>50,294</u>	<u>(140,293)</u>	<u>(44,703)</u>
Net cash provided (used) by operating activities	<u>\$ (5,635)</u>	<u>\$ (984)</u>	<u>\$ 48,490</u>	<u>\$ 52,869</u>	<u>\$ (129,140)</u>	<u>\$ (34,400)</u>
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	-	(29)	(1,696)	(395)	(1,963)	(4,083)
Total noncash investing, capital, and financing activities	<u>\$ -</u>	<u>\$ (29)</u>	<u>\$ (1,696)</u>	<u>\$ (395)</u>	<u>\$ (1,963)</u>	<u>\$ (4,083)</u>

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the “Working Agreements”). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA’s security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA’s rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent’s privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the “O.A. Guide”), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA no longer has servicing agreements with outside entities. As of August 1, 2018, all servicing of THDA Program Loans is handled by Volunteer Mortgage Loan Servicing, a division of THDA. See Appendix G under the heading “Loan Servicing” for more information.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove and in Appendix G.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the “General Residential Finance Program Bond Resolution.”

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

“*Account*” means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

“*Accountant*” means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

“*Act*” means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

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

“*Authorized Officer*” means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

“*Bond*” or “*Bonds*” means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

“*Bond Counsel's Opinion*” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

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

“*Bond Reserve Fund*” means the Bond Reserve Fund established pursuant to Section 5.1.

“*Bond Reserve Fund Requirement*” means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

“*Code*” means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

- (1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;
- (2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

"Program Security" means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

"Projected Cash Flow Statement" means a Certificate delivered pursuant to the provisions of Section 7.11.

"Rating Agency" means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody's and S&P.

"Redemption Account" means the Redemption Account which is established and created in the Revenue Fund pursuant to this Resolution.

"Redemption Date" means the date upon which Bonds are to be called for redemption pursuant to this Resolution.

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

"Refunding Bond" means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

"Resolution" means this Resolution and any amendments or supplements made in accordance with its terms.

"Revenue Fund" means the Revenue Fund established pursuant to Section 5.1.

"Revenues" means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

"S&P" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, and any successor.

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

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

"State" means the State of Tennessee.

"Supplemental Resolution" means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

"THDA" means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

"Trustee" means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI
REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

(1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or

(2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or

(3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of or Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI

CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$823,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

Amount

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Outstanding as of August 31, 2018 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A	December 23, 2009	\$ 100,000,000	\$ --	\$ 8,075,000	3.96%
2010-A/ 2009-B, Subseries B-1	June 17, 2010	74,710,000	85,290,000	11,275,000	3.85
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	39,675,000	3.15
2011-A/ 2009-B, Subseries B-3	April 14, 2011	40,000,000	60,000,000	11,685,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	44,690,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,850,000	34,710,000	40,535,000	3.01
Issue 2015-A	May 28, 2015	<u>163,850,000</u>	<u>--</u>	<u>96,735,000</u>	2.78
TOTAL		<u>\$ 523,850,000</u>	<u>\$ 300,000,000</u>	<u>\$ 252,670,000</u>	

(1) Bond yield.

As of July 31, 2018 (unaudited), 2,924 mortgage loans in the approximate aggregate principal amount of \$241,472,652 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$201,385,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of August 31, 2018 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-2 ⁽²⁾	September 30, 2009	\$ 75,000,000	\$ 16,825,000 ⁽²⁾	4.06
2010-1	October 13, 2010	120,700,000	32,030,000	3.57
2011-1	December 1, 2011	141,255,000	50,040,000	3.80
2012-1	July 19, 2012	133,110,000	57,885,000	3.26
2012-2	November 15, 2012	97,625,000	44,605,000	2.92
TOTAL		<u>\$ 567,690,000</u>	<u>\$ 201,385,000</u>	

(1) Bond yield.

(2) To be refunded with proceeds of Issue 2018-4.

As of July 31, 2018 (unaudited), 4,764 mortgage loans in the approximate aggregate principal amount of \$233,365,431 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets relating to bond proceeds, including mortgage loans, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution. Certain assets and investments not related to bond proceeds remain in the General Fund of the 1974 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. THDA established eligibility requirements for the mortgage credit certificate program and loans assisted with a mortgage credit certificate may not be funded with proceeds of qualified mortgage bonds such as the Issue 2018-4 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets. These assets are invested only in investments authorized by the Act, THDA's investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA's investment of THDA assets to the Executive Director of THDA. For information related to THDA's investment of assets held under the General Resolution, see FINANCIAL SUMMARY OF RESIDENTAL FINANCE PROGRAM—Investments.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bonds certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds certificates will be printed and delivered.

RESIDENTIAL FINANCE PROGRAM LOAN ORIGINATING AND SERVICING PROCEDURES

General

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2018-4 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

Effective as of August 1, 2018, THDA income limits will range from \$60,900 to \$104,860 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

THDA is self-servicing its entire mortgage loan portfolio through Volunteer Mortgage Loan Servicing ("VMLS"), a division of THDA. VMLS began servicing operations as of November 1, 2016, with the servicing of a small THDA mortgage loan portfolio previously serviced by Pinnacle Bank. Since June 1, 2018, all THDA Originating Agents have been transferring all servicing for new THDA Program Loans directly to VMLS. The remaining servicing portfolio, previously serviced by U.S. Bank, was transferred to THDA on August 1, 2018. On July 31, 2018, THDA paid \$23,376,000 to U.S. Bank with funds withdrawn from the lien of the 1985 General Resolution in accordance with its terms as a one-time servicing release and transfer fee for acquisition of the servicing rights that were transferred to VLMS on August 1, 2018.

November 15, 2018

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$225,000,000 Issue 2018-4 (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$225,000,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2018-4 (Non-AMT) (the "Issue 2018-4 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2018-4 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on September 25, 2018, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on October 3, 2018 (together, the "Supplemental Resolution," and, together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2018-4 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2018-4 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2018-4 Bonds are being issued to refund certain outstanding obligations of THDA and to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2018-4 Bonds in order that interest on the Issue 2018-4 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2018-4 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.

2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.

3. The Issue 2018-4 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2018-4 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2018-4 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.

6. The Issue 2018-4 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.

7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2018-4 Bonds is excluded from gross income of the owners thereof for federal income tax purposes; (ii) interest on the Issue 2018-4 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on the Issue 2018-4 Bonds will not be included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code. No federal alternative minimum tax applies to corporations for tax years beginning after December 31, 2017.

8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2018-4 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2018-4 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2018-4 Bonds may have to take interest on such Issue 2018-4 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2018-4 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2018-4 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2018-4 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES*

Delinquencies and Foreclosures as of June 30, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.92%, based on a total of 15,717 Program Loans as of June 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	256	\$ 25,949,023	1.94%	0.90% ⁽⁴⁾
VA Guaranteed	1	91,632	0.33	0.72
Privately Insured	17	1,360,302	1.97	0.64
USDA/RD Guaranteed.....	22	1,528,002	2.51	⁽⁵⁾
Uninsured.....	6	540,523	1.19	⁽⁵⁾
TOTAL	<u>302</u>	<u>\$ 29,469,483⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.28%, based on a total of 15,717 Program Loans as of June 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	550	\$ 50,668,667	4.18%	1.26% ⁽⁴⁾
VA Guaranteed	14	683,883	4.64	1.11
Privately Insured	59	3,487,636	6.85	0.95
USDA/RD Guaranteed.....	36	2,377,390	4.10	⁽⁵⁾
Uninsured.....	14	712,446	2.77	⁽⁵⁾
TOTAL	<u>673</u>	<u>\$ 57,930,022⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bond issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding loans financed pursuant to the 1974 General Resolution that were transferred to the General Resolution as of June 30, 2014.

The overall rate of Program Loans in foreclosure was 0.67%, based on a total of 15,717 Program Loans as of June 30, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of June 30, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2018, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	92	\$ 7,868,238	0.70%	0.45% ⁽⁴⁾
VA Guaranteed	3	253,872	0.99	0.75
Privately Insured	4	189,208	0.46	0.37
USDA/RD Guaranteed.....	6	295,347	0.68	⁽⁵⁾
Uninsured.....	1	19,835	0.20	⁽⁵⁾
TOTAL	106	\$ 8,626,500 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of March 31, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.40%, based on a total of 14,705 Program Loans as of March 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	177	\$ 16,691,322	1.45%	0.90% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.59
Privately Insured	11	879,308	1.22	0.58
USDA/RD Guaranteed.....	15	950,559	1.81	⁽⁵⁾
Uninsured.....	3	189,182	0.63	⁽⁵⁾
TOTAL	206	\$ 18,710,370 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.05%, based on a total of 14,705 Program Loans as of March 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	607	\$ 55,629,626	4.97%	1.60% ⁽⁴⁾
VA Guaranteed	19	1,399,344	6.74	1.17
Privately Insured	62	3,571,790	6.90	1.02
USDA/RD Guaranteed.....	39	2,434,199	4.72	⁽⁵⁾
Uninsured.....	15	799,807	3.17	⁽⁵⁾
TOTAL	<u>742</u>	<u>\$ 63,834,766⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

The overall rate of Program Loans in foreclosure was 0.26%, based on a total of 14,705 Program Loans as of March 31, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2018, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	31	\$ 2,982,828	0.25%	0.48% ⁽⁴⁾
VA Guaranteed	1	117,136	0.35	0.78
Privately Insured	4	461,462	0.44	0.40
USDA/RD Guaranteed.....	2	156,295	0.24	⁽⁵⁾
Uninsured.....	0	0	0.00	⁽⁵⁾
TOTAL	<u>38</u>	<u>\$ 3,717,722⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

Delinquencies and Foreclosures as of December 31, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.08%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	252	\$ 24,174,120	2.15%	1.24% ⁽⁴⁾
VA Guaranteed	4	245,240	1.47	0.82
Privately Insured	14	1,165,763	1.51	0.76
USDA/RD Guaranteed.....	21	1,298,996	2.69	⁽⁵⁾
Uninsured.....	3	147,257	0.67	⁽⁵⁾
TOTAL	<u>294</u>	<u>\$ 27,031,376⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.44%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	628	\$ 56,810,693	5.36%	1.85% ⁽⁴⁾
VA Guaranteed	18	1,132,198	6.62	1.32
Privately Insured	67	4,094,874	7.22	1.13
USDA/RD Guaranteed.....	43	2,890,156	5.50	⁽⁵⁾
Uninsured.....	14	820,178	3.13	⁽⁵⁾
TOTAL	<u>770</u>	<u>\$ 65,748,099⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.33%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of December 31, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2017, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	40	\$ 3,982,561	0.34%	0.51% ⁽⁴⁾
VA Guaranteed	1	117,136	0.37	0.81
Privately Insured	4	463,572	0.43	0.40
USDA/RD Guaranteed.....	2	156,928	0.26	⁽⁵⁾
Uninsured.....	0	0	0.00	⁽⁵⁾
TOTAL	<u>47</u>	<u>\$ 4,720,196⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of September 30, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.93%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	223	\$ 22,374,473	2.00%	1.38% ⁽⁴⁾
VA Guaranteed	2	157,772	0.76	0.80
Privately Insured	13	984,104	1.38	0.71
USDA/RD Guaranteed.....	17	1,150,950	2.21	⁽⁵⁾
Uninsured.....	7	473,226	1.60	⁽⁵⁾
TOTAL	<u>262</u>	<u>\$ 25,140,524⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.24%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	560	\$ 49,491,381	5.02%	1.92% ⁽⁴⁾
VA Guaranteed	20	1,301,089	7.60	1.31
Privately Insured	71	4,883,975	7.55	0.16
USDA/RD Guaranteed.....	46	3,324,364	5.99	(5)
Uninsured.....	13	629,014	2.97	(5)
TOTAL	<u>710</u>	<u>\$ 59,629,823⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.53%, based on a total of 13,562 Program Loans as of September 30, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2017 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2017, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2017

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	62	\$ 6,276,684	0.56%	0.43% ⁽⁴⁾
VA Guaranteed	2	273,802	0.76	0.80
Privately Insured	5	517,833	0.53	0.41
USDA/RD Guaranteed.....	3	240,117	0.39	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>72</u>	<u>\$ 7,308,436⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these



Tennessee Housing
Development Agency

Supplement Dated February 20, 2019, to
Official Statement Dated February 12, 2019,
Relating to

TENNESSEE HOUSING DEVELOPMENT AGENCY

**Residential Finance Program Bonds
\$175,000,000 Issue 2019-1 (Non-AMT)**

The Official Statement dated February 12, 2019 (the “Official Statement”) relating to the above-referenced Bonds is hereby amended to correct the Prices of the Bonds as shown on the inside cover of the Official Statement to read as follows:

“PRICE OF ISSUE 2019-1 BONDS DUE JULY 1, 2044: 100.767%
PRICE OF ISSUE 2019-1 BONDS DUE JANUARY 1, 2050 (PAC): 108.272%
PRICE OF ALL REMAINING ISSUE 2019-1 BONDS: 100.000%”

Please affix this Supplement to the Official Statement that you have in your possession and forward this Supplement to any party to whom you delivered a copy of the Official Statement.

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2019-1 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that interest on the Issue 2019-1 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals under the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"). In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2019-1 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2019-1 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds \$175,000,000 Issue 2019-1 (Non-AMT)

Dated: Date of Delivery

Due: As shown on inside front cover

The Issue 2019-1 Bonds (the "Issue 2019-1 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on July 1, 2019, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about March 21, 2019.

RBC CAPITAL MARKETS

CITIGROUP

RAYMOND JAMES

J.P. MORGAN WELLS FARGO SECURITIES

WILEY BROTHERS—AINTREE CAPITAL, LLC

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$175,000,000 Issue 2019-1 (Non-AMT)

\$51,930,000 Serial Bonds

<u>Year</u>	<u>Principal Amount Due January 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>	<u>Principal Amount Due July 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
2020	\$ 1,480,000	1.60%	880461XG8	\$ 1,695,000	1.65%	880461XH6
2021	1,715,000	1.75	880461XJ2	1,735,000	1.80	880461XK9
2022	1,755,000	1.85	880461XL7	1,780,000	1.90	880461XM5
2023	1,800,000	1.95	880461XN3	1,825,000	2.05	880461XP8
2024	1,850,000	2.15	880461XQ6	1,875,000	2.20	880461XR4
2025	1,900,000	2.25	880461XS2	1,930,000	2.30	880461XT0
2026	1,960,000	2.40	880461XU7	1,990,000	2.50	880461XV5
2027	2,020,000	2.60	880461XW3	2,050,000	2.65	880461XX1
2028	2,085,000	2.75	880461XY9	2,120,000	2.80	880461XZ6
2029	2,155,000	2.85	880461YA0	2,195,000	2.90	880461YB8
2030	2,230,000	2.95	880461YC6	2,270,000	3.00	880461YD4
2031	2,315,000	3.10	880461YE2	2,355,000	3.15	880461YF9
2032	2,400,000	3.20	880461YG7	2,445,000	3.25	880461YH5

\$123,070,000 Term Bonds

<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
July 1, 2034	\$ 10,270,000	3.40%	880461YJ1
July 1, 2039	29,735,000	3.75	880461YK8
January 1, 2044	6,000,000	3.90	880461YN2
July 1, 2044	27,180,000	4.00	880461YL6
January 1, 2050 (PAC)	49,885,000	4.25	880461YM4

PRICE OF ISSUE 2019-1 BONDS DUE JANUARY 1, 2044: 100.767%

PRICE OF ISSUE 2019-1 BONDS DUE JANUARY 1, 2050 (PAC): 108.272%

PRICE OF ALL REMAINING ISSUE 2019-1 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY
Residential Finance Program Bonds
\$175,000,000 Issue 2019-1 (Non-AMT)

INTRODUCTION

This Official Statement (the “Official Statement”) provides certain information in connection with the issuance by the Tennessee Housing Development Agency (“THDA”) of its Residential Finance Program Bonds, Issue 2019-1 in the aggregate principal amount of \$175,000,000 (the “Issue 2019-1 Bonds” or the “Offered Bonds”).

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the “Act”). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the “General Resolution” or the “2013 General Resolution”) and by a Resolution adopted by THDA on November 13, 2018, as amended and supplemented by the Bond Finance Committee of THDA (the “Bond Finance Committee”) on February 12, 2019 (the “Issue 2019-1 Supplemental Resolution”). The General Resolution and the Issue 2019-1 Supplemental Resolution are herein collectively referred to as the “Resolution.”

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2019-1 Bonds on November 9, 2018.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of December 31, 2018 (unaudited), Bonds in the aggregate principal amount of \$1,907,650,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$232,155,000 were outstanding under THDA’s Housing Finance Program Resolution (the “2009 General Resolution”), and bonds in the aggregate principal amount of \$187,185,000 were outstanding under THDA’s Homeownership Program Resolution (the “1985 General Resolution”). No bonds are outstanding under THDA’s Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”). For more information see “Other Financings—Housing Bond Resolution (Mortgage Finance Program)” in Appendix E.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption “SECURITY AND SOURCES OF PAYMENT OF BONDS”. All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the “Bonds”. The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the “Public Pledge Act”). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee’s codification of Article 9 of the Uniform Commercial Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects that the proceeds of the Issue 2019-1 Bonds will be used to: (i) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (ii) pay capitalized interest, if any; (iii) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (iv) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix G.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" refers to new Program Loans (including participations therein) financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2019-1 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA does not intend to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance. While the Issue 2019-1 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of November 30, 2018 (unaudited), 17,460 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$1,817,730,560. Based on the outstanding principal balance of Program Loans as of November 30, 2018 (unaudited), approximately 87.79% were FHA insured, approximately 2.08% were VA guaranteed, approximately 3.09% were insured by private mortgage insurance companies, approximately 4.41% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.64% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See "RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data" and Appendix B under the heading "Private Mortgage Insurance Programs".

U.S. Bank National Association (the “Trustee”) is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2019-1 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2019-1 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D “2013 GENERAL RESOLUTION”. Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, (“DTC”), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F “BOOK-ENTRY-ONLY SYSTEM” for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2019-1 Bonds and is payable on July 1, 2019, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2019-1 Bonds maturing on July 1, 2034, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2033, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2019-1 Term Bonds Due July 1, 2034

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2033	\$ 2,495,000	\$ 2,540,000
2034	2,590,000	2,645,000 (maturity)

The Issue 2019-1 Bonds maturing on July 1, 2039, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2035, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2019-1 Term Bonds Due July 1, 2039

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2035	\$ 2,695,000	\$ 2,755,000
2036	2,815,000	2,875,000
2037	2,935,000	3,000,000
2038	3,065,000	3,130,000
2039	3,200,000	3,265,000 (maturity)

The Issue 2019-1 Bonds maturing on January 1, 2044, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2040, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2019-1
Term Bonds Due January 1, 2044**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2040	\$ 610,000	\$ 625,000
2041	635,000	650,000
2042	665,000	680,000
2043	695,000	710,000
2044	730,000 (maturity)	

The Issue 2019-1 Bonds maturing on July 1, 2044, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2040, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2019-1
Term Bonds Due July 1, 2044**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2040	\$ 2,730,000	\$ 2,790,000
2041	2,855,000	2,915,000
2042	2,980,000	3,050,000
2043	3,115,000	3,190,000
2044	3,255,000	300,000 (maturity)

The Issue 2019-1 Bonds maturing on January 1, 2050 (the "PAC Bonds"), are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2044, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2019-1
PAC Term Bonds Due January 1, 2050**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2044		\$ 3,775,000
2045	\$ 4,170,000	4,270,000
2046	4,375,000	4,480,000
2047	4,585,000	4,695,000
2048	4,810,000	4,925,000
2049	5,040,000	3,925,000
2050	835,000 (maturity)	

Optional Redemption. The Issue 2019-1 Bonds maturing on and after January 1, 2029, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after July 1, 2028, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2019-1 Principal Payments (as defined below). Any Excess 2019-1 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing July 1, 2019; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2019-1 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds are equal to or less than 400% PSA (as defined below under “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds”), as determined by THDA, then available Excess 2019-1 Principal Payments shall first be applied to redeem PAC Bonds up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds are in excess of 400% PSA, as determined by THDA, then available Excess 2019-1 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds shall first be applied to redeem PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an “Excess Principal PAC Bond Redemption”); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2019-1 Principal Payments which is in excess of 400% PSA, and (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds’ proportionate amount of all Issue 2019-1 Bonds then Outstanding.

“Excess 2019-1 Principal Payments” means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

“Planned Amortization Amount” means the dollar amount applicable to the PAC Bonds for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the PAC Bonds assumed to be redeemed from Excess 2019-1 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds. See “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds” for a description of PSA prepayment rates.

The Planned Amortization Amounts for the PAC Bonds (which assume the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedules

<u>Date</u>	<u>PAC Bonds Planned Amortization Amount</u>
July 1, 2019	\$ 175,000
January 1, 2020	315,000
July 1, 2020	1,490,000
January 1, 2021	3,670,000
July 1, 2021	6,790,000
January 1, 2022	10,750,000
July 1, 2022	14,975,000
January 1, 2023	19,050,000
July 1, 2023	22,920,000
January 1, 2024	26,580,000
July 1, 2024	30,035,000
January 1, 2025	33,295,000
July 1, 2025	36,365,000
January 1, 2026	39,240,000
July 1, 2026	41,930,000
January 1, 2027	44,435,000
July 1, 2027	46,770,000
January 1, 2028	48,925,000
July 1, 2028	49,885,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the PAC Bonds are redeemed from amounts on deposit in the Issue 2019-1 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see "ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds."

Special Optional Redemption of the Offered Bonds, including Cross Calls. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading "DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds"; (ii) except as otherwise described under the headings "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds", and "– Mandatory Redemption – 10 Year Rule", repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, "Code"), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds", and (b) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bonds to exceed the Planned Amortization Amount shown above in the PAC Bonds Amortization Schedule. The Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D "2013 GENERAL RESOLUTION"), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph. See "ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments" and "ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices".

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof financed with proceeds of the Offered Bonds (directly, or through a series of refundings) shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds," the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the related Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedule only if there are no other Offered Bonds outstanding.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans (or portions thereof) financed with proceeds of the Offered Bonds in accordance with the following approximate 10 year rule percentages to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Commencement Date</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
March 21, 2019	0.00%
March 21, 2029	100.00%

THDA will redeem the Offered Bonds in accordance with this schedule to the extent required to comply with the Code. THDA reserves the right to modify this schedule at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory redemption on November 1, 2019, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2019-1 Bonds Subaccount of the Loan Fund on October 1, 2019, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2019-1 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on September 1, 2022, to the extent any amounts remain on deposit in the Issue 2019-1 Bonds Subaccount of the Loan Fund on August 1, 2022.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding.

Selection By Lot

If less than all of the Issue 2019-1 Bonds of like maturity are to be redeemed, the particular Issue 2019-1 Bonds of such maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the

registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2019-1 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 175,000,000.00
Premium on PAC Bonds	4,126,487.20
Premium on 07/01/2044 Term Bond	208,470.60
THDA Contribution	1,500,000.00
TOTAL SOURCES	<u>\$ 180,834,957.80</u>

USES

Deposit to Loan Fund	\$ 175,000,000.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,000,000.00
Deposit to Bond Reserve Fund	3,492,761.79
Costs of Issuance	300,442.40
Underwriters' Fee	1,041,753.61
TOTAL SOURCES	<u>\$ 180,834,957.80</u>

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the

greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumption that THDA originates approximately \$175,000,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 4.86%. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2019-1 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA, including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" for descriptions of the various Program Loan products and Appendix G "RESIDENTIAL FINANCE PROGRAM LOAN ORIGINATING AND SERVICING PROCEDURES" for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2019-1 Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 4.86% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2019-1 Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2019-1 Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on January 7, 2019. As of the close of business on February 4, 2019, THDA has committed a total principal amount of approximately \$28,056,919 of Program Loans and has purchased approximately \$5,105,360 outstanding principal balance of loans, all of which are Great Choice Program Loans and Homeownership for the Brave Program Loans that will be allocated to the Offered Bonds. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans". Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

The United States Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") in 2010, and may pass additional legislation impacting the origination and servicing of mortgage

loans. Likewise, the Tennessee General Assembly may enact legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA's single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA's activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA's single-family loans could adversely affect the THDA's ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D "2013 GENERAL RESOLUTION"), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds," "- Special Optional Redemption of the Offered Bonds, including Cross Calls" and "- Mandatory Redemption – 10-Year Rule".

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See "DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds."

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA's general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA's current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA's determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D “2013 GENERAL RESOLUTION” for a description of Program Expenses. THDA expects to use funds on deposit in the Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters’ fees, initial Trustee’s fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee’s fees, servicing release premiums, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see “THDA – THDA Funds”. THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum; and (iii) funds on deposit in the Issue 2019-1 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term “weighted average life” refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association (“PSA”)) prepayment standard or model (commonly referred to as the “PSA Prepayment Model”).

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, “0% PSA” assumes no prepayments of principal on the Program Loans. “25% PSA” assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. “50% PSA” assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. “75% PSA” assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. “100% PSA” assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. “200% PSA” assumes the principal

of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. "300% PSA" assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. "400% PSA" assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. "500% PSA" assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors' housing needs, job transfers, unemployment and mortgagors' net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under "Changes in Federal or State Law" above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading "DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds", and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2019-1 Bond Subaccount of the Loan Fund is applied to finance Program Loans, (ii) Excess 2019-1 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iii) the PAC Bonds will be redeemed only in the Planned Amortization Amounts as described under the heading "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds" and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>PAC Bond Average Life (in years)</u>
0%	27.5
25	20.8
50	12.8
75	6.6
100	5.0
200	5.0
300	5.0
400	5.0
500	4.9

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RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

As of December 31, 2018, THDA has issued \$2,383,805,000 total original principal amount of bonds under the General Resolution, of which \$1,907,650,000 (unaudited) were outstanding as of December 31, 2018, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of December 31, 2018 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$ 86,885,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	61,240,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	81,420,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	100,100,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	109,575,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	132,670,000	3.25
Issue 2016-1	May 18, 2016	125,000,000	105,820,000	2.68
Issue 2016-2	October 18, 2016	125,000,000	109,510,000	2.68
Issue 2016-3	November 17, 2016	62,000,000	40,135,000	2.97
Issue 2017-1	March 30, 2017	100,000,000	90,085,000	3.15
Issue 2017-2	June 27, 2017	175,000,000	160,795,000	2.94
Issue 2017-3	September 28, 2017	99,900,000	98,110,000	3.03
Issue 2017-4	December 19, 2017	99,900,000	97,635,000	2.90
Issue 2018-1	March 29, 2018	99,900,000	98,770,000	3.33
Issue 2018-2	June 12, 2018	160,000,000	160,000,000	3.37
Issue 2018-3	September 6, 2018	149,900,000	149,900,000	3.47
Issue 2018-4	November 15, 2018	225,000,000	225,000,000	3.58
TOTAL		<u>\$ 2,383,805,000</u>	<u>\$ 1,907,650,000</u>	

(1) Bond yield.

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Origination Experience

THDA's experience from May 30, 2013, to December 31, 2018 (unaudited), regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

<u>Issue of Bonds</u>	<u>Lendable Proceeds⁽²⁾</u>	<u>Program Loans Financed⁽³⁾ as of December 31, 2018</u>		<u>Weighted Average Interest Rate⁽⁴⁾</u>
		<u>Amount</u>	<u>%</u>	
Issue 2013-1	\$ 136,268,395	\$ 136,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	92,340,000	92,340,000	100.00	3.98
Issue 2016-2	91,685,000	91,685,000	100.00	3.87
Issue 2017-1	102,200,000	102,200,000	100.00	4.15
Issue 2017-2	128,090,000	128,090,000	100.00	4.61
Issue 2017-3	90,500,000	90,500,000	100.00	4.62
Issue 2017-4	75,660,000	75,660,000	100.00	4.40
Issue 2018-1	102,600,000	102,600,000	100.00	4.39
Issue 2018-2	143,525,000	143,525,000	100.00	4.61
Issue 2018-3	151,916,000	151,916,000	100.00	4.61
Issue 2018-4	211,450,000	155,354,155	73.47	4.67
TOTAL	\$ 1,902,034,875	\$ 1,845,938,871		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on January 7, 2019. As of the close of business on February 4, 2019, THDA has committed a total principal amount of approximately \$28,056,919 of Program Loans and has purchased approximately \$5,105,360 outstanding principal balance of loans, that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing the Offered Bonds, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. As of August 1, 2018, the THDA Household Income Limits range from \$60,900 to \$104,860 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental

Resolution. The Issue 2019-1 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance. While the Issue 2019-1 Supplemental Resolution provides that Program Loans, or participations therein, to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. On and after October 1, 2013, the THDA primary loan program has included Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. Since October 1, 2013, THDA has provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below. As of March 1, 2017, THDA began providing additional downpayment and closing cost assistance through its Hardest Hit Fund Down Payment Assistance program as described below.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 4.875%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans. From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans in a principal amount equal to 4% of the purchase price of the property purchased. From October 1, 2014, to September 30, 2016, Great Choice Plus Loans were 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, each Great Choice Plus loan will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

Since October 3, 2016, Great Choice Plus Loans are thirty year 0% interest rate second lien loans in a principal amount up to 5% of the purchase price of the property purchased. No monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan, provided, however, that the full original principal amount will be forgiven at the end of the thirty year term.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA. THDA does not expect that Great Choice Plus loans will be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

Hardest Hit Fund Down Payment Assistance

In March 2017, THDA began providing \$15,000 in downpayment assistance from the fifth round of federal Hardest Hit Fund funding ("HHF-DPA") to eligible borrowers who qualify for THDA Great Choice loans and who are purchasing existing homes in an approved ZIP Code in Tennessee. HHF-DPA is secured by a second deed of trust for a ten year term. HHF-DPA does not bear interest, and there are no monthly payments, but it is due on sale. HHF-DPA is forgiven at 20% per year in years six through ten. A THDA approved Homebuyer Education course is also required.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans are serviced by the Federation of Appalachian Housing Enterprises, Inc., as of January 1, 2015. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. As of December 1, 2016, the maximum loan amount was increased to \$123,750 for Maury, Williamson, Davidson, Rutherford, Wilson and Sumner Counties. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable.

As of November 30, 2018 (unaudited), 136 New Start Program Loans, with an aggregate principal balance of approximately \$6,418,602, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction. Eligible borrowers will also be eligible for Great Choice Plus loans.

As of November 30, 2018 (unaudited), 379 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$45,879,152, were outstanding under the General Resolution. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became transferred program loans allocable to the Issue 2013-1 Bonds under the General Resolution.

As of November 30, 2018 (unaudited), 153 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$8,285,327, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers prior to October 1, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds. THDA also provided downpayment and closing cost assistance in the form of a grant in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made.

As of November 30, 2018 (unaudited), 2,675 Great Rate, 164 Great Advantage, and 1,697 Great Start Program Loans, with an aggregate principal balance of approximately \$357,034,471, were outstanding under the General Resolution. THDA no longer makes loans of this type.

START Program Loans

From September 1993 to December 1998, THDA offered the Special Targeted Affordable Rate for Tennessee Program (the "START Program") using recycled prepayments received under the 1974 General Resolution and certain bond proceeds from bonds issued under the 1974 General Resolution and the 1985 General Resolution; through a series of refundings, certain START Program Loans are allocated to the General Resolution. First lien START Program Loans under the General Resolution had a 5.5% interest rate, were made to borrowers who earned \$17,000 or less per year and who purchased their first home for \$44,000 or less. After October 1, 1997, borrowers who earned \$18,500 or less per year and who purchased their first home for \$47,500 or less were eligible for first lien START Program Loans at a 5.5% interest rate. Except for the more restrictive income and acquisition cost limitations, all other requirements of THDA's Homeownership Program applied.

As of November 30, 2018 (unaudited), 430 START Program Loans having an aggregate principal balance of approximately \$6,073,883 were outstanding under the General Resolution. THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of November 30, 2018 (unaudited), 17,460 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$1,817,730,560 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 315.47 months and an approximate weighted average interest rate of 4.54%.

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Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of November 30, 2018 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured	14,738	\$ 1,595,830,825	84.41%	87.79%
VA Guaranteed	350	37,749,304	2.00	2.08
Privately Insured	679	56,106,162	3.89	3.09
USDA/RD Guaranteed	984	80,141,733	5.64	4.41
Uninsured ⁽²⁾	709	47,902,536	4.06	2.64
TOTAL	17,460	\$ 1,817,730,560⁽⁴⁾	100.00%⁽⁴⁾	100.00%⁽⁴⁾

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution, either upon their direct transfer to the General Resolution or upon the refunding of other THDA obligations, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of November 30, 2018 (unaudited), 679⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$56,520,346 were outstanding under the General Resolution. As of November 30, 2018 (unaudited), THDA had the following information regarding the private mortgage insurers for 677 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance⁽³⁾</u>	<u>Percent of Total Number of Program Loans⁽³⁾</u>	<u>Percent of Total Outstanding Balance of Program Loans⁽³⁾</u>
Arch MI ⁽²⁾	107	\$ 8,603,016	0.61%	0.47%
Genworth Mortgage Insurance Corp. (GE)	283	23,747,091	1.62	1.31
MGIC	239	19,988,876	1.37	1.10
Radian Guaranty Inc.	5	154,883	0.03	0.01
Republic Mortgage Insurance Corporation	43	3,434,334	0.25	0.19
TOTAL	677	\$ 55,928,201⁽⁴⁾	3.88%⁽⁴⁾	3.08%⁽⁴⁾

(1) The private mortgage insurer is not identified with respect to 2 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA began compiling data with respect to individual private mortgage insurance providers.

(2) Purchased United Guaranty Residential Insurance Co.

(3) Rounded figures.

(4) Rounded total.

Program Loan Interest Rates

The following table summarizes, as of November 30, 2018 (unaudited), the interest rates of the outstanding Program Loans:

<u>Mortgage Rates (%)</u>	<u>Number of Program Loans⁽¹⁾</u>	<u>Outstanding Balance⁽²⁾</u>	<u>Percent of Total Number of Program Loans⁽²⁾</u>	<u>Percent of Total Outstanding Balance⁽²⁾</u>
0.00-1.99	184	\$ 8,191,044	1.05%	0.45%
2.00-2.99	2	155,931	0.01	0.01
3.00-3.99	3,364	385,478,171	19.27	21.21
4.00-4.49	3,519	412,198,945	20.15	22.68
4.50-4.99	5,964	742,083,135	34.16	40.82
5.00-5.49	1,221	94,177,815	6.99	5.18
5.50-5.99	1,687	102,035,199	9.66	5.61
6.00-6.49	476	35,519,621	2.73	1.95
6.50-6.99	577	26,856,184	3.30	1.48
7.00-7.49	208	6,419,702	1.19	0.35
7.50-7.99	186	3,225,455	1.07	0.18
8.00-8.99	68	1,357,455	0.39	0.07
9.00-9.49	3	28,206	0.02	0.00
9.50-12.00	1	3,695	0.01	0.00
TOTAL	17,460	\$1,817,730,560⁽³⁾	100.00%⁽³⁾	100.00%⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have passed with no payment received by the last business day of the month in which the second payment was due are considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time

bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

THDA, through Volunteer Mortgage Loan Servicing, manages delinquencies by working with borrowers in an attempt to avoid defaults and by communicating directly with borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

Delinquencies and Foreclosures as of November 30, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.33%, based on a total of 17,460 Program Loans as of November 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of November 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF NOVEMBER 30, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	356	\$ 34,790,168	2.42%	1.15% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.87
Privately Insured	16	1,308,793	2.36	0.68 ⁽⁵⁾
USDA/RD Guaranteed.....	29	2,089,188	2.95	⁽⁶⁾
Uninsured.....	5	319,958	0.71	⁽⁶⁾
TOTAL	<u>406</u>	<u>\$ 38,508,107⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2018.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.52%, based on a total of 17,460 Program Loans as of November 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of November 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF NOVEMBER 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	669	\$ 65,034,653	4.54%	1.55% ⁽⁴⁾
VA Guaranteed	12	973,091	3.43	1.19
Privately Insured	38	2,927,412	5.60	0.94 ⁽⁵⁾
USDA/RD Guaranteed.....	41	2,680,743	4.17	(6)
Uninsured.....	30	1,628,882	4.23	(6)
TOTAL	790	\$ 73,244,780 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.15%, based on a total of 17,460 Program Loans as of November 30, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of November 30, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2018, are as follows:

IN FORECLOSURE AS OF NOVEMBER 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	20	\$ 1,945,521	0.14%	0.53% ⁽⁴⁾
VA Guaranteed	2	36,345	0.57	0.70
Privately Insured	2	247,110	0.29	0.34 ⁽⁵⁾
USDA/RD Guaranteed.....	2	121,227	0.20	(6)
Uninsured.....	0	0	0.00	(6)
TOTAL	26	\$ 2,350,202 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the five most recent years and for the three months ended September 30, 2018, and September 30, 2017. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2018, 2017, 2016, 2015, and 2014, and from unaudited financial information of THDA for the three months ended September 30, 2018, and September 30, 2017.

	Three Months Ended September 30 (Unaudited)		Year Ended June 30 (Audited)				
<u>Residential Finance Bond Group</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES:							
Interest on Mortgages	\$ 17,885	\$ 14,320	\$ 62,297	\$ 49,298	\$ 36,426	\$ 25,393	\$ 13,518
Investment Income:							
Interest	920	680	3,152	1,617	2,011	1,866	335
Net Increase (decrease) in the Fair Value of Investments	(312)	(199)	(1,736)	(792)	(320)	(552)	(146)
Fees and Other Income	<u>12</u>	<u>815</u>	<u>724</u>	<u>853</u>	<u>953</u>	<u>160</u>	<u>-</u>
	18,505	15,616	64,437	50,976	39,070	26,867	13,707
EXPENSES:							
Interest	12,320	9,147	40,142	30,542	24,876	17,058	9,087
Issuance Cost	1,072	191	3,812	3,602	2,311	2,343	2,167
Mortgage Servicing Fees	408	1,109	4,748	3,857	2,967	2,048	980
Other	<u>473</u>	<u>222</u>	<u>1,254</u>	<u>970</u>	<u>1,157</u>	<u>1,001</u>	<u>239</u>
	14,273	10,669	49,956	38,971	31,311	22,450	12,473
Excess of Revenues over Expenses	4,232	4,947	14,481	12,005	7,759	4,417	1,234
Net Position at beginning of period	194,764	176,030	176,030	116,295	101,055	105,707	(68,279)
Other Transfers	<u>25,073</u>	<u>(2,503)</u>	<u>4,253</u>	<u>47,730</u>	<u>7,481</u>	<u>(9,069)</u>	<u>172,752</u>
Net Position at end of period	<u>\$ 224,069</u>	<u>\$ 178,474</u>	<u>\$ 194,764</u>	<u>\$ 176,030</u>	<u>\$ 116,295</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of December 31, 2018 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾ Amount</u>	<u>Long Term⁽²⁾ Amount</u>
Federal Home Loan Bank Notes	\$102,479,037	\$ 51,957,692
Federal Home Loan Mortgage Corporation Notes	9,012,659	17,332,043
Fannie Mae Notes	55,310,000	9,972,258
Financing Corporation Bonds	2,199,348	0
TOTAL	<u>\$169,001,044</u>	<u>\$ 79,261,993</u>

As of December 31, 2018 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾ Amount</u>	<u>Long Term⁽²⁾ Amount</u>
Federal Home Loan Bank Notes	\$ 6,945,157	\$ 33,701,352
Federal Home Loan Mortgage Corporation Notes	99,137	5,597,862
Fannie Mae Notes	0	8,782,506
TOTAL	<u>\$ 7,044,293</u>	<u>\$ 48,081,720</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2022.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of December 31, 2018 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$2,326,990,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors⁽¹⁾ are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Kim Grant Brown, Chairman	June 30, 2019	Owner, Grant & Company Collierville, TN
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Tre Hargett ⁽²⁾	January, 2021	Secretary of State
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
John Krenson	June 30, 2020	CEO, Operation Stand Down Nashville, TN
David H. Lillard, Jr. ⁽²⁾	January, 2021	State Treasurer
Stuart McWhorter ⁽²⁾	(3)	Commissioner, Department of Finance and Administration
Erin Merrick ⁽²⁾	(3)	Deputy Counsel to the Governor
Austin McMullen	June 30, 2019	Member, Bradley Arant Boult Cummings LLP Nashville
John K. Snodderly	June 30, 2019	Executive Director, LaFollette Housing Authority LaFollette
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Pieter J. van Vuuren	June 30, 2019	President & CEO, First National Bank of McMinnville McMinnville, TN
Justin Wilson ⁽²⁾	January, 2021	Comptroller of the Treasury
Daisy Fields	(4)	Gallatin, TN

(1) One Board of Directors position appointed by the Governor under T.C.A. Section 13-23-107(a) is vacant.

(2) Ex officio member.

(3) Serves at pleasure of the Governor.

(4) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 258 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members⁽¹⁾ involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Administration since September 2018. THDA employee since 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Operating Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010). B.S., Middle Tennessee State University.

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Conners & Berry (currently Bradley Arant Boult Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999); Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

(1) The position of Director of Volunteer Mortgage Loan Servicing ("VMLS") is currently vacant. In the interim, VMLS activities are overseen by Lindsay Hall.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the "State") amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

Additionally, as of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ended June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees. Information about TCRS is available on the Tennessee Department of Treasury website at www.treasury.tn.gov/tcrs.

The TCRS covers three (3) large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 58,889 active members in TCRS in the state and higher education employee group at June 30, 2018. This total includes 258 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation for the defined benefit plan or contributions to a defined contribution plan.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age sixty (60) or thirty (30) years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute 5% of salary

to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with an overall 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The defined benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age sixty-five (65) or the rule of ninety (90) (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities. Effective July 1, 2018, all future stabilization reserve contributions are held in a separate trust outside of TCRS for the benefit of each employer that participates in the stabilization reserve trust. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan, requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for the Defined Benefit Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute to TCRS 19.23% of salary for the period July 1, 2018 through June 30, 2019, based on the July 1, 2017 actuarial valuation. The June 30, 2018, actuarial valuation will establish employer contribution rates for the period July 1, 2019 through June 30, 2020. General state employees do not contribute to this plan.

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2018 (measurement date of June 30, 2017), the net pension liability for the state and higher education employee group based on the market value of assets was \$1.79 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 88.88%.

Actuarial Data for the Defined Benefit Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, an actuarial valuation is performed to determine the employer contribution rate as well as the actuarially determined contribution (ADC) and the stabilization reserve rate. For the period July 1, 2018 through June 30, 2019, the overall 4% employer contribution rate to TCRS consists of 3.95% for general employees, with the employer rate for judicial and public safety employees being higher at 7.43% and 4.80%, respectively. The employer contribution rate for general employees of 3.95% consists of 1.66% for the ADC and 2.29% for the stabilization reserve.

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2018 (measurement date of June 30, 2017), the net pension asset for the state and higher education employee group based on the market value of assets was \$20.7 million, resulting in a plan fiduciary net position as a percentage of total pension liability of 131.51%.

THDA Employer Contributions for Pensions (Defined Benefit and Defined Contribution Plan)

For THDA, the employer contribution rate for employees hired before July 1, 2014, stated as a percentage of salary, is as follows: 19.23% for the period July 1, 2018 through June 30, 2019. For employees first hired after June 30, 2014, the employer rate is 8.95% for the period July 1, 2018 through June 30, 2019 (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions for the pension plans are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	THDA Employer Contributions to DC (Open Plan)	Percentage of THDA Budget
2019 ⁽¹⁾	19.23/9.00% ⁽²⁾	\$ 18,751,300 ⁽¹⁾	\$ 2,450,935 ⁽¹⁾	\$ 267,556	2.45% ⁽¹⁾
2018	18.87/9.00% ⁽²⁾	14,498,364	1,945,832	262,903	1.97
2017	15.02/9.00% ⁽²⁾	13,396,776 ⁽³⁾	1,577,092	183,030	1.53
2016	15.03/9.00% ⁽²⁾	11,965,554	1,581,407	100,999	1.38
2015	15.02/9.00% ⁽²⁾	11,569,902	1,673,881	28,731	1.21
2014	15.03	11,721,300	1,761,711		1.19
2013	15.03	11,315,872	1,692,847		1.26
2012	14.91	11,005,204	1,632,095		1.36
2011	14.91	10,593,944	1,585,654		1.25
2010	13.02	9,956,646	1,295,272		1.03

(1) Estimated; final amount anticipated to be lower due to unfilled positions, staff turnover and salaries at less than the maximum permitted.

(2) Varies depending on plan the employee is enrolled in.

(3) The increase in "Total Salary of THDA Employees" from the actual amount for the fiscal year ended June 30, 2016, to the actual amount for the fiscal years ended June 30, 2017, and June 30, 2018, is due to the additional salaries for approximately forty-four (44) positions THDA has filled and an additional nine (9) positions THDA expects to fill in connection with the servicing activities THDA is undertaking through Volunteer Mortgage Loan Servicing.

For the fiscal year ended June 30, 2018, the salary of THDA employees totaled \$14,498,364, which represents 0.48% of the \$3.0 billion of salary for all state and higher education employees in TCRS.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

General Information about the 401(k) and 457 Defined Contribution Plans

The state provides additional voluntary defined contribution plans to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Employee contribution limits to the 401(k) and 457 plans are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA. The THDA contribution for the fiscal year ended June 30, 2018 was \$75,204.37.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 74 and 75) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2017, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used an entry age normal actuarial cost method, indicates that for the fiscal year ended June 30, 2018, the total unfunded actuarial liability of THDA is \$3,577,602 and the fiscal year 2018 OPEB expense for THDA is \$274,165. The current OPEB report for the Employee Group OPEB Plan may be reviewed at <https://www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-opeb.html>. The State did not pre-fund any actuarially determined OPEB liability, and continued to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for fiscal year ended June 30, 2018. The State charged THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that interest on the Issue 2019-1 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals under the alternative minimum tax provisions of the Code.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a "Premium Bond") over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or otherwise prevent beneficial owners of the Issue 2019-1 Bonds from realizing the full current benefit of the tax status of such interest, or adversely affect the market value of the Issue 2019-1 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Issue 2019-1 Bonds. Purchasers of the Issue 2019-1 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Issue 2019-1 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation, regulatory initiatives or litigation.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

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

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 as promulgated on the issue date of the Issue 2019-1 Bonds by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Rule"), THDA, in the Issue 2019-1 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2019-1 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MRSB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material; (xv) incurrence of a financial obligation (as defined in the Rule) of THDA, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of THDA, any of which affect bondholders, if material; and (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of THDA, any of which reflect financial difficulties.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2019-1 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2019-1 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2019-1 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2019-1 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MRSB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2018, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the three months ended September 30, 2018. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

RBC Capital Markets, LLC, Raymond James & Associates, Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and Wiley Brothers—Aintree Capital, LLC (collectively, the "Underwriters") have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$1,041,753.61. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

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

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer

Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

Wells Fargo Bank, National Association, acting through its Municipal Products Group (“WFBNA”), one of the underwriters of the Offered Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Offered Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Offered Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Offered Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor’s report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Kim Grant Brown
Chair

/s/ Ralph M. Perrey
Executive Director



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, the schedule of proportionate share of the collective total other postemployment benefit liability for the Closed State Employee Group OPEB Plan, and the schedule of proportionate share of the collective total other postemployment benefit liability for the Closed Tennessee OPEB Plan, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic

financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.

A handwritten signature in dark ink, appearing to read "Deborah Loveless", is positioned above the printed name and title.

Deborah V. Loveless, CPA, Director
Division of State Audit
December 11, 2018

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2018

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2018, with comparative information presented for the fiscal year ended June 30, 2017. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

Introduction – The Tennessee Housing Development Agency

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2018, THDA has originated over 120,400 single-family mortgage loans in its 45-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 70 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 385 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated*, Section 13-23-105). This board meets regularly on a bimonthly basis; however, some committees may meet more often as situations dictate.

Overview of the Financial Statements

The basic financial statements include statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows, as well as notes to the financial statements. The statement of net position provides financial information on the overall financial position of THDA at each year end. The statement of revenues, expenses, and changes in net position summarizes the results of operations over the course of each fiscal year. The statement of cash flows provides relevant information about THDA's cash receipts and cash payments during each fiscal year.

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discretely presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <https://www.tn.gov/finance/fa/fa-accounting-financial/fa-acffin-cafr.html>.

During fiscal year 2018, THDA implemented accounting standard GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The Statement establishes new accounting and financial reporting procedures for postemployment benefits other than pensions. Implementation of this Statement resulted in a revision of THDA's Net Position as of July 1, 2017, which has been reported as a Prior Period Adjustment.

Financial Highlights

Year Ended June 30, 2018

- Total assets increased by \$164.7 million, or 6.4%.
- Total liabilities increased by \$164.8 million, or 8.0%.
- Net position was \$509.9 million. This is an increase of \$1.7 million, or 0.34%, from fiscal year 2017 net position (as adjusted).
- Cash and cash equivalents decreased by \$86.2 million, or 23.4%.
- Total investments increased by \$54.1 million, or 26.2%.
- Bonds payable increased by \$148.3 million, or 7.5%.
- THDA originated \$463.4 million in new loans, which is an increase of \$137.6 million, or 42.2%, from the prior year.

Financial Analysis of the Agency

Net Position – The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	2018	2017
Current assets	\$ 406,809	\$ 427,265
Capital assets	2,876	1,809
Other noncurrent assets	2,330,505	2,146,413
Total assets	2,740,190	2,575,487
Deferred outflows of resources	4,609	4,726
Current liabilities	170,949	185,772
Noncurrent liabilities	2,063,595	1,883,961
Total liabilities	2,234,544	2,069,733
Deferred inflows of resources	365	514
Invested in capital assets	2,876	1,809
Restricted net position	438,516	430,633
Unrestricted net position	68,498	77,524
Total net position	\$ 509,890	\$ 509,966

2018 to 2017

First and second mortgage loans receivable (net of allowance for forgivable second mortgages) increased by \$188.5 million. During fiscal year 2018, single-family mortgage loan originations increased by \$137.6 million, whereas mortgage loan payoffs increased by \$20.6 million and mortgage loan repayments increased \$3.6 million. In addition, THDA recognized an allowance for future uncollectable forgivable second mortgages of \$14.0 million for fiscal year 2018.

Total liabilities increased \$164.8 million. The increase is primarily due to a \$148.3 million increase of bonds payable at June 30, 2018, as compared to June 30, 2017.

Changes in Net Position – The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	2018	2017
Operating revenues		
Mortgage interest income	\$ 90,105	\$ 87,963
Investment income	2,738	1,743
Other	20,482	18,546
Total operating revenues	113,325	108,252
Operating expenses		
Interest expense	58,239	56,892
Other	45,368	41,980
Total operating expenses	103,607	98,872
Operating income	9,718	9,380
Nonoperating revenues (expenses)		
Grant revenues	317,326	277,877
Grant expenses	(325,340)	(288,223)
Total nonoperating revenues (expenses)	(8,014)	(10,346)
Change in net position	\$ 1,704	\$ (966)

2018 to 2017

Total operating revenues increased \$5.1 million, primarily due to an increase in mortgage interest income of \$2.1 million and federal grant administration fees of \$1.5 million. During fiscal year 2018, certain long-term investments with high interest yields matured, which were re-invested into other investments having contemporary investment yields. In addition, fair value of investments decreased by \$4.2 million in fiscal year 2018.

Total operating expenses increased \$4.7 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate, and an increase in salary and benefits expense.

Nonoperating grant revenues increased \$39.5 million and nonoperating grant expenses increased \$37.1 million. The increases are due to the first full year of implementation of the down payment assistance program during fiscal year 2018.

Debt Activity – Bonds outstanding at June 30 were as follows (expressed in thousands):

	2018	2017
Bonds payable	\$2,128,712	\$1,980,456

Year Ended June 30, 2018

Total bonds payable increased \$148.3 million, which is deemed an insignificant year-over-year variance primarily attributable to an increase in mortgage loan production. During the fiscal year, THDA issued debt totaling \$459.7 million, with activity arising from four bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$34.6 million of outstanding bonds into new bond originations with lower interest rates. In addition to the nominal tax-exempt mortgage revenue bonds issued, THDA also issued one taxable bond issue in fiscal year 2017 primarily for economic refunding opportunities.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard and Poor's (S&P), a division of The McGraw-Hill Companies, Inc., has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

Debt Limits

In accordance with *Tennessee Code Annotated*, Section 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

Grant Programs

During fiscal year 2007 through fiscal year 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors allocated additional THDA funds for grants. These funds established a grant program that was titled by THDA the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

	2018	2017	2016 and Prior	Total
Funding Sources:				
THDA	\$7,500,000	\$7,500,000	\$67,300,000	\$82,300,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	\$7,500,000	\$7,500,000	\$71,650,000	\$86,650,000
Approved Uses:				
Rural repair program (USDA)	\$ -	\$ -	\$ 6,300,000	\$ 6,300,000
Ramp Programs & Hsg Modification	300,000	300,000	1,350,000	1,950,000
Emergency Repairs	2,700,000	2,700,000	18,500,000	23,900,000
Competitive Grants	3,500,000	3,500,000	37,600,000	44,600,000
Rebuild & Recover	500,000	500,000	3,300,000	4,300,000
Other Grants	500,000	500,000	4,600,000	5,600,000
Totals	\$7,500,000	\$7,500,000	\$71,650,000	\$86,650,000

Current Mortgage Products and Environment

THDA offers a variety of mortgage loan products to address the needs of Tennesseans across the State. The Great Choice loan program offers THDA the opportunity to offer a more competitive interest rate on its 30-year fixed rate mortgage product while still offering down payment assistance with the addition of the Great Choice Plus loan program, which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the Great Choice Plus loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15. Subsequently, in October of 2016, the Great Choice Loan product was revised to feature a 30-year forgiveness requirement, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced or otherwise paid in full within the first 30 years of closing.

A special interest rate reduction on the Great Choice loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as “Homeownership for the Brave,” provides a 0.5% rate reduction on the current interest rate for Great Choice loans. In addition to the rate reduction, Homeownership for the Brave applicants are eligible for optional down payment and closing cost assistance through the Great Choice Plus second mortgage loan at a 0% interest rate.

All first mortgage loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages, interest-only mortgages, “buy-down” loans, mortgages with a future lump-sum payment due (balloon-type mortgages), or with other similar mortgage terms. THDA does not make or purchase “sub-prime” mortgage loans.

Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by S&P. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have LTV ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's Internet site at <https://thda.org/homebuyers/homebuyers>.

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2018, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principal Amount Outstanding	Percentage ¹
60 – 89 Days Past Due	24,287	513	\$ 43,223,463	2.11%
90+ Days Past Due	24,287	1,200	95,172,207	4.94%
In Foreclosure	24,287	187	13,686,607	0.77%

Economic Factors

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a benchmark, THDA uses the one-, three- and five-year Constant Maturity Treasury rates as established by the United States Treasury.

¹ Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

The continuation of relatively low interest rates from a historic perspective increases the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

Direct Loan Servicing

During FY 2017, THDA commenced the direct servicing of mortgage loans under the name of Volunteer Mortgage Loan Servicing ("VMLS"). On November 1, 2016, the servicing of approximately 1,800 THDA mortgage loans having an outstanding principal balance of \$91.5 million was transferred to VMLS from an existing THDA mortgage servicer. In FY 2018, THDA began directly servicing the flow-business of new mortgage loans.

Contacting THDA's Financial Management

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report or need additional financial information, contact Trent Ridley, Chief Financial Officer, at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2018
(Expressed in Thousands)

ASSETS

Current assets:		
Cash and cash equivalents (Note 2)	\$	216,191
Investments (Note 2)		83,879
Receivables:		
Accounts		839
Interest		11,155
First mortgage loans		59,768
Due from federal government		<u>34,977</u>
Total current assets		<u>406,809</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		66,553
Investments (Note 2)		127,812
Investment interest receivable		790
Investments (Note 2)		48,595
First mortgage loans receivable		2,058,402
Second mortgage loans receivable		38,108
Allowance for uncollectable second mortgages		(14,031)
Unearned service release premiums		1,106
Advance to local government		3,135
Net pension asset (Note 5)		35
Capital assets:		
Furniture and equipment		5,108
Less accumulated depreciation		<u>(2,232)</u>
Total noncurrent assets		<u>2,333,381</u>
Total assets		<u>2,740,190</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refundings	441
Deferred outflows related to pensions (Note 5)	3,931
Deferred outflows related to OPEB (Note 9)	<u>237</u>
Total deferred outflows of resources	<u>4,609</u>

LIABILITIES

Current liabilities:	
Accounts payable	15,875
Accrued payroll and related liabilities	680
Compensated absences	736
Due to primary government	91
Interest payable	32,181
Escrow deposits	2,719
Prepayments on mortgage loans	1,205
Due to federal government	29,517
Bonds payable (Note 3)	<u>87,945</u>
Total current liabilities	<u>170,949</u>
Noncurrent liabilities:	
Bonds payable (Note 3)	2,040,767
Compensated absences	630
Net pension liability (Note 5)	7,659
Net OPEB liability (Note 9)	3,578
Escrow deposits	10,596
Arbitrage rebate payable	<u>365</u>
Total noncurrent liabilities	<u>2,063,595</u>
Total liabilities	<u>2,234,544</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 5)	228
Deferred inflows related to OPEB (Note 9)	<u>137</u>
Total deferred inflows of resources	<u>365</u>

NET POSITION

Net investment in capital assets	2,876
Restricted for single family bond programs (Note 4 and Note 7)	423,248
Restricted for grant programs (Note 4)	12,080
Restricted for Homebuyers Revolving Loan Program (Note 4)	3,153
Restricted for net pension asset (Note 5)	35
Unrestricted (Note 7)	<u>68,498</u>
Total net position	<u>\$ 509,890</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

OPERATING REVENUES

Mortgage interest income	\$ 90,105
Investment income:	
Interest	7,025
Net (decrease) in the fair value of investments	(4,287)
Federal grant administration fees	15,279
Fees and other income	5,203
Total operating revenues	<u>113,325</u>

OPERATING EXPENSES

Salaries and benefits	20,177
Contractual services	6,214
Materials and supplies	1,436
Rentals and insurance	12
Other administrative expenses	836
Other program expenses	5,572
Interest expense	58,239
Mortgage service fees	6,833
Issuance costs	3,812
Depreciation	476
Total operating expenses	<u>103,607</u>
Operating income	<u>9,718</u>

NONOPERATING REVENUES (EXPENSES)

Federal grants revenue	317,323
Other grants revenue	3
Federal grants expenses	(317,388)
Local grants expenses	(7,952)
Total nonoperating revenues (expenses)	<u>(8,014)</u>
Change in net position	<u>1,704</u>
Total net position, July 1	509,966
Cumulative effect of a change in accounting principle (Note 12)	(1,780)
Total net position, July 1, as restated	508,186
Total net position, June 30	<u>\$ 509,890</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 373,400
Receipts from federal government	15,030
Receipts from other funds	2,740
Other miscellaneous receipts	5,203
Acquisition of mortgage loans	(463,417)
Payments to service mortgages	(7,939)
Payments to suppliers	(16,471)
Payments to federal government	(1,490)
Payments to other funds	(2,740)
Payments to or for employees	(20,844)
Net cash used by operating activities	(116,528)
Cash flows from non-capital financing activities:	
Operating grants received	314,000
Proceeds from sale of bonds	469,989
Operating grants paid	(319,857)
Call premium paid	(14)
Cost of issuance paid	(3,812)
Principal payments	(314,725)
Interest paid	(62,486)
Net cash provided by non-capital financing activities	83,095
Cash flows from capital and related financing activities:	
Purchases of capital assets	(1,542)
Net cash used by capital and related financing activities	(1,542)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	203,470
Purchases of investments	(262,517)
Investment interest received	7,151
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	693
Net cash used by investing activities	(51,203)
Net decrease in cash and cash equivalents	(86,178)
Cash and cash equivalents, July 1	368,922
Cash and cash equivalents, June 30	\$ 282,744
	(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

Reconciliation of operating income to net cash used by operating activities:	
Operating income	\$ <u>9,718</u>
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	476
Changes in assets and liabilities:	
Decrease in accounts receivable	154
Decrease in mortgage interest receivable	341
(Increase) in pension asset	(2)
(Increase) in deferred pension outflows	(67)
Decrease in deferred OPEB outflows	4
(Increase) in mortgage loans receivable	(188,470)
(Increase) in due from federal government	(249)
Increase in accounts payable	4,883
(Decrease) in unearned service release premiums	(1,106)
Increase in accrued payroll / compensated absences	100
(Decrease) in due to primary government	(632)
(Decrease) in arbitrage rebate liability	(745)
Increase in pension liability	7
(Decrease) in OPEB liability	(104)
(Decrease) in deferred pension inflows	(286)
Increase in deferred OPEB inflows	137
Investment income included as operating revenue	(2,738)
Interest expense included as operating expense	58,239
Issuance cost included as operating expense	<u>3,812</u>
Total adjustments	<u>(126,246)</u>
Net cash used by operating activities	\$ <u><u>(116,528)</u></u>
Noncash investing, capital, and financing activities:	
(Decrease) in fair value of investments	\$ <u>(4,821)</u>
Total noncash investing, capital, and financing activities	\$ <u><u>(4,821)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Notes to the Financial Statements
June 30, 2018

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee Housing Development Agency (THDA) was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as ex officio board members of the agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and Title 24, *Code of Federal Regulations*, Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

THDA is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds

Notes to the Financial Statements (Continued)

and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, the Tax and Insurance Holding/Escrow account, Funds on deposit for, or on behalf of, borrower's related to Loan Servicing, Hardest Hit Fund cash, and Net Pension Assets (see note 4).

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

The Tax and Insurance Holding/Escrow account is used to service mortgage accounts. These funds are tax and insurance escrows held on behalf of various mortgagors from payments collected on mortgages. The agency is obligated to expend these monies on escrowed items. The Payment Clearing and Disbursement accounts are also used to service mortgages.

Deferred Amount on Refundings and Bond Premiums and Discounts

Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.

Notes to the Financial Statements (Continued)

Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

Mortgages

Mortgages are carried at their original amount less collected principal.

Loan Servicing

On November 1, 2016, THDA began servicing the mortgage loans previously serviced by an approved THDA Loan Servicer and in May of 2017 began servicing the loans originated from THDA's Originating Agents.

Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds.

Notes to the Financial Statements (Continued)

outstanding. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Allowance for Forgivable Second Mortgages

THDA has offered the Down Payment Assistance product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period. During fiscal year 2018, the agency determined that an amount of second mortgage down payment assistance loans are not expected to be recovered due to forgiveness or foreclosure. This amount was recorded as an allowance.

Beginning in April 2017 this product changed to 100% forgivable second mortgage loan for the 30-year term of the first mortgage. It is 100% repayable in the event the home is sold, refinanced or owners move out of the home. Because of the likelihood that the majority of second mortgage loans will be repaid in the course of the 30-year term, the allowance account established for the second mortgage loans beginning October 2014 will not be used for any second mortgages made after March 2017.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Note 2. Deposits and Investments

Deposits

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

Notes to the Financial Statements (Continued)

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2018, the bank balance was \$ 32,468,510. This amount includes \$2,840,941; which is held in a T&I Escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf. All bank balances at June 30, 2018, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2018, \$28,695,048 was in the BNYM. Of this amount, \$28,445,048 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the State of Tennessee Treasurer's Report. That report is available on the state's website at www.treasury.state.tn.us.

Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk – Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Notes to the Financial Statements (Continued)

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

June 30, 2018		
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$167,711,320	2.878
U.S. Treasury Coupon	12,969,783	2.704
U.S. Agency Discount	187,487,134	0.133
Total	\$368,168,237	1.474

Fair Value Measurements – THDA implemented GASB Statement 72, *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2018, (expressed in thousands):

June 30, 2018				
Assets by Fair Value Level	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Agency Coupon	\$167,711	\$ -	\$167,711	\$ -
U.S. Treasury Coupon	12,970	12,970	-	-
U.S. Agency Discount	187,487	-	187,487	-
Total debt securities	\$368,168	\$12,970	355,198	\$ -

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets as those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets as those securities. Level 3 valuations are derived from valuation techniques in which significant inputs are unobservable.

Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to the Investments section of Note 1 for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2018, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

Notes to the Financial Statements (Continued)

June 30, 2018					
Investment Type	Fair Value	U.S. Treasury ¹	AAA	AA+	Not Rated ²
U.S. Agency Coupon	\$167,711,320	\$ -	\$14,412,390	\$151,034,949	\$ 2,263,981
U.S. Treasury Coupon	12,969,783	12,969,783	-	-	-
U.S. Agency Discount	187,487,134	-	30,000,000	-	157,487,134
Total	\$368,168,237	\$12,969,783	\$44,412,390	\$151,034,949	\$159,751,115

In addition to these investments, the agency has \$136,991,170 invested in a money market fund. This fund is measured at amortized cost and has a Standard and Poor's rating of AAA.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

June 30, 2018		
Issuer	<u>Fair Value</u> <u>(Thousands)</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$217,505	59.08
Federal Home Loan Mortgage Corp.	\$81,487	22.13
Federal National Mortgage Assoc.	\$53,951	14.65

GASB 79 Disclosures – During fiscal year 2016, THDA implemented GASB Statement 79, *Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that THDA participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost.

Note 3. Liabilities

Bonds Issued and Outstanding

Homeownership Program Bonds				
Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2018 (Thousands)
2007-4	1/1/2009 – 7/1/2038	\$ 150,000	3.75 to 5.50	\$ -
2008-1	7/1/2009 – 1/1/2039	60,000	2.45 to 5.70	-
2009-1	1/1/2010 – 7/1/2029	50,000	0.75 to 5.00	13,255
2009-2	7/1/2010 – 7/1/2030	75,000	0.90 to 5.00	17,480
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50	33,435
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65	52,185

¹ This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

² This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

Notes to the Financial Statements (Continued)

2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50	59,395
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00	45,710

Total Homeownership Program Bonds	\$827,690	\$ 221,460
Plus: Unamortized Bond Premiums		1,928
Net Homeownership Program Bonds		<u>\$223,388</u>

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2018 (Thousands)
2009-A	1/1/2011 – 1/1/2040	\$100,000	0.90 to 4.625	\$ 8,445
2010-A	1/1/2011 – 7/1/2041	160,000	0.60 to 5.00	11,965
2010-B	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	40,580
2011-A	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	12,275
2011-B	7/1/2012 – 7/1/2041	100,000	0.25 to 4.50	46,020
2011-C	7/1/2012 – 7/1/2041	100,000	0.40 to 4.30	42,015
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	99,090

Total Housing Finance Program Bonds	\$810,000	\$260,390
Plus: Unamortized Bond Premiums		2,756
Net Housing Finance Program Bonds		<u>\$263,146</u>

Residential Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2018 (Thousands)
2013-1	1/1/2014 – 7/1/2043	\$ 215,905	0.40 to 4.00	\$ 98,530
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	67,335
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	89,825
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	106,210
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	117,920
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	142,270
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	109,900
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	113,680
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	44,045
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	94,125
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	164,465
2017-3	7/1/2018 – 1/1/2048	99,900	0.80 to 3.65	99,070
2017-4	7/1/2018 – 7/1/2048	99,900	0.95 to 4.00	99,900
2018-1	1/1/2019 – 1/1/2043	99,900	1.40 to 4.00	99,900
2018-2	1/1/2019 – 1/1/2049	160,000	1.75 to 4.00	160,000

Total Residential Finance Program Bonds	\$2,008,905	\$1,607,175
Plus: Unamortized Bond Premiums		35,037
Subtract: Unamortized Bond Discount		(34)
Net Residential Finance Program Bonds		<u>\$1,642,178</u>

Net Total All Bonds		<u>\$2,128,712</u>

Notes to the Financial Statements (Continued)

Housing Finance Program Bonds – The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

Debt Service Requirements

Debt service requirements to maturity at June 30, 2018, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2019	\$ 45,460	\$ 67,559	\$ 113,019
2020	78,775	69,483	148,258
2021	85,160	67,472	152,632
2022	81,740	65,162	146,902
2023	78,190	62,888	141,078
2024 – 2028	390,215	277,914	668,129
2029 – 2033	393,280	212,378	605,658
2034 – 2038	410,000	140,523	550,523
2039 – 2043	359,090	66,736	425,826
2044 - 2048	157,285	15,398	172,683
2049	9,830	273	10,103
Total	<u>\$2,089,025</u>	<u>\$1,045,786</u>	<u>\$3,134,811</u>

Notes to the Financial Statements (Continued)

Redemption of Bonds and Notes

During the year ended June 30, 2018, bonds were retired at par before maturity in the Homeownership Program in the amount of \$62,025,000, in the Housing Finance Program in the amount of \$55,915,000, and in the Residential Finance Program in the amount of \$144,045,000. The respective carrying values of the bonds were \$62,672,676, \$56,543,851 and \$148,217,359. This resulted in revenue to the Homeownership Program of \$647,676, to the Housing Finance Program of \$628,851, and to the Residential Finance Program of \$4,172,359.

On June 27, 2017, the agency issued \$175,000,000 in Residential Finance Program Bonds, Issue 2017-2. On July 1, 2017, the agency used \$23,110,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$23,110,000 early redemption). The carrying amount of these bonds was \$23,217,325. The refunding increased the agency's debt service by \$7,948,844 over the next 20.50 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$848,929.

On September 28, 2017, the agency issued \$99,900,000 in Residential Finance Program Bonds, Issue 2017-3

On December 19, 2017, the agency issued \$99,900,000 in Residential Finance Program Bonds, Issue 2017-4. On January 1, 2018, the agency used \$11,460,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$11,460,000 early redemption). The carrying amount of these bonds was \$11,460,000. The refunding reduced the agency's debt service by \$4,972,339 over the next 16 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$2,364,905.

On March 29, 2018, the agency issued \$99,900,000 in Residential Finance Program Bonds, Issue 2018-1.

On June 12, 2018, the agency issued \$160,000,000 in Residential Finance Program Bonds, Issue 2018-2.

Notes to the Financial Statements (Continued)

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2018 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2017	Additions	Reductions	Ending Balance June 30, 2018	Amounts Due Within One Year ³
Bonds Payable	\$1,944,050	\$459,700	(\$314,725)	\$2,089,025	\$87,945,
Plus: Unamortized Bond Premiums	36,406	10,317	(7,002)	39,721	-
Less: Unamortized Bond Discounts	-	(35)	1	(34)	-
Compensated Absences	1,314	69	(17)	1,366	736
Net Pension Liability	7,652	1,549	(1,542)	7,659	-
Total OPEB Liability	1,661	3,976	(2,059)	3,578	-
Escrow Deposits	5,391	78,563	(70,639)	13,315	2,719
Arbitrage Rebate Payable	1,110	-	(745)	365	-
Total	\$1,997,584	\$554,139	(\$396,728)	\$2,154,995	\$91,400

Note 4. Restricted Net Position

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

Note 5. Pension Plans

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with

³Amounts due within one year include management authorized bond refundings at June 30.

Notes to the Financial Statements (Continued)

pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.state.tn.us/tcrs.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. THDA employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer

Notes to the Financial Statements (Continued)

contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2018, to the Closed State and Higher Education Employee Pension Plan were \$1,891,406, which is 18.87 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2018, THDA reported a liability of \$7,659,371 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. THDA's proportion of the net pension liability was based on a projection of THDA's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, THDA's proportion was 0.427994 percent. The proportion measured as of June 30, 2016, was 0.419391 percent.

Pension expense – For the year ended June 30, 2018, THDA recognized a pension expense of \$1,584,150. Allocated pension expense was \$1,589,179 before being reduced by \$5,029 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, THDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 607	\$224
Net difference between projected and actual earnings on pension plan investments	28	-
Change in proportionate share of net asset or liability	20	-
Changes in assumptions	1,305	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2017	1,891	-
Total	\$3,851	\$224

Deferred outflows of resources, resulting from THDA's employer contributions of \$1,891,406 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Notes to the Financial Statements (Continued)

Year Ended June 30:	
2019	205,395
2020	1,269,075
2021	688,928
2022	(428,854)
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected six years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.5 percent decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the

Notes to the Financial Statements (Continued)

expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%.

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents THDA’s proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what THDA’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency’s proportionate share of the net pension liability	\$15,780,009	\$7,659,371	\$831,851

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Notes to the Financial Statements (Continued)

Payable to the Pension Plan

At June 30, 2018, THDA reported a payable of \$78,546 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2018.

State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description – State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under *Tennessee Code Annotated* Title 8, Chapters 34-37.

The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.state.tn.us/tcrs.

Benefits provided – *Tennessee Code Annotated* Title 8, Chapters 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation by 1.0 percent multiplied by member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher

Notes to the Financial Statements (Continued)

Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2018, to the State and Higher Education Employee Retirement Plan were \$56,893, which is 1.29 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2018, THDA reported an asset of \$35,422 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA's proportion of the net pension asset was based on a projection of THDA's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, THDA's proportion was 0.170803 percent. The proportion measured as of June 30, 2016, was 0.391715 percent.

Pension expense – For the year ended June 30, 2018, THDA recognized a pension expense of \$16,527. Allocated pension expense was \$14,375 before being increased by \$2,152 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1	\$1
Net difference between projected and actual earnings on pension plan investments	-	3
Changes in proportion of share of net asset or liability	19	-

Notes to the Financial Statements (Continued)

Changes in assumptions	3	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2017	57	-
Total	\$80	\$4

Deferred outflows of resources, resulting from THDA's employer contributions of \$56,593 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2019	2,058
2020	2,058
2021	1,989
2022	1,621
2023	2,388
Thereafter	9,677

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with generational mortality improvement.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.5 percent to 2.25 percent; and

Notes to the Financial Statements (Continued)

decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents THDA's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what THDA's proportionate share of the net pension asset

Notes to the Financial Statements (Continued)

would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency's proportionate share of the net pension asset	\$(4,430)	\$(35,422)	\$(58,537)

Payable to the Pension Plan

At June 30, 2018, THDA reported a payable of \$2,632 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2018 for both defined benefit pension plans was \$1,600,678.

Note 6. Deferred Compensation Plans

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code, Section 457, and the other pursuant to *Internal Revenue Code* (IRC), Section 401(k). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The THDA provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The THDA recognized a pension expense of \$338,108 for employer contributions.

Notes to the Financial Statements (Continued)

The THDA recognized a pension payable of \$15,339 for employer contributions

Note 7. Provisions for Mortgage Loan Losses

Most mortgage loans are insured by the Federal Housing Administration, an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

Note 8. Insurance-Related Activities

Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property; crime and fidelity coverage on the state's officials and employees; and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

Notes to the Financial Statements (Continued)

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2018, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2018, the Risk Management Fund held \$189 million in cash designated for payment of claims.

Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 9. Other-Postemployment Benefits OPEB

Closed State Employee Group OPEB Plan

General information about the OPEB plan

Plan description - Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015 and choose coverage, are provided with pre-65 retiree health insurance benefits through the closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan includes the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee and the institutions that make up the State University and Community College System.

Notes to the Financial Statements (Continued)

Benefits provided - The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65 are enrolled in this plan. All members have the option of choosing between the partnership promise, no partnership promise, standard preferred provider organization (PPO) plan or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits, as active employees, at a blended premium rate that considers the cost of active employees. This creates an implicit subsidy for the retirees. The retirees cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. No subsidy is provided to retirees in the health savings CDHP plan. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*, establishes the required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates.

Total OPEB Liability

Proportionate share - The Tennessee Housing Development Agency's proportionate share of the collective total OPEB liability, related to the EGOP, was \$3.6 million. At the June 30, 2017, measurement date, the Tennessee Housing Development Agency's proportion of the collective total OPEB liability was 0.2664798%, representing the first-time presentation of the proportion. Tennessee Housing Development Agency's proportion of the collective total OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017 and measurement date of June 30, 2017.

Actuarial assumptions - The collective total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%

Notes to the Financial Statements (Continued)

Healthcare cost trend rates 7.5% for 2018, decreasing annually to an ultimate rate of 3.83% for 2050 and later years.

Retiree's share of benefit-related costs Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017 pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate - The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal General Obligation (GO) AA index.

Changes in assumptions - The discount rate was changed from 2.92% as of the beginning of the measurement period to 3.56% as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate - The following presents Tennessee Housing Development Agency proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56%) or 1-percentage-point higher (4.56%) than the current discount rate (expressed in thousands).

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Proportionate share of the collective total OPEB liability	\$ 3,826	\$ 3,578	\$ 3,345

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate - The following presents Tennessee Housing Development Agency proportionate share of the collective total OPEB liability of the EGOP, as well as what the

Notes to the Financial Statements (Continued)

proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (6.50% decreasing to 2.83%) or 1-percentage-point higher (8.50% decreasing to 4.83%) than the current healthcare cost trend rate.

	1% Decrease (6.50% decreasing to 2.83%)	Healthcare Cost Trend Rates (7.50% decreasing to 3.83%)	1% Increase (8.50% decreasing to 4.83%)
Proportionate share of the collective total OPEB liability	\$ 3,221	\$ 3,578	\$ 3,996

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense - For the fiscal year ended June, 30, 2018, the Tennessee Housing Development Agency recognized OPEB expense of \$274 thousand.

Deferred outflows of resources and deferred inflows of resources - For the fiscal year ended June, 30, 2018, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources (expressed in thousands):

	Deferred Outflows of resources	Deferred Inflows of resources
Differences between actual and expected experience	\$ -	\$ -
Changes of assumptions	-	137
Changes in proportion and differences between benefits paid and proportionate share of benefits paid.	-	-
Payments subsequent to the measurement date	237	
Total	<u>\$ 237</u>	<u>\$ 137</u>

Deferred outflows of resources, resulting from the Tennessee Housing Development Agency's employer payments of \$237 thousand subsequent to the measurement date, will be recognized as a decrease in total OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (expressed in thousands):

Notes to the Financial Statements (Continued)

For the year ended June 30:

2019	\$ (20)
2020	(20)
2021	(20)
2022	(20)
2023	(20)
Thereafter	(39)

In the tables above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

Closed Tennessee OPEB Plan

General information about the OPEB plan

Plan description – Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015 and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The State of Tennessee (primary government) as well as the Tennessee Student Assistance Corporations, the Tennessee Housing Development Agency, the University of Tennessee and the other institutions that make up the State University and Community College System also participates in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state administered Teacher Group Insurance and Local Government Insurance Plans.

Benefits provided - The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Title 8, Chapter 27, Parts 201, 301, and 701. *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare eligible and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost, however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25. Tennessee Housing Development Agency does not provide any subsidies for retirees in the TNP. The primary government paid \$7,976 thousand for OPEB as the benefits came due during

Notes to the Financial Statements (Continued)

the reporting period. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

In accordance with Title 8, Chapter 27, Parts 209, *Tennessee Code Annotated*, the state insurance committees established by Title 8, Chapter 27, Parts 201, 301, and 701 determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the TN OPEB liability associated with the Tennessee Housing Development Agency’s employees. The primary government’s proportionate share of the total OPEB liability associated with the Tennessee Housing Development Agency was \$339 thousand. At the June 30, 2017, measurement date, the proportion of the collective total OPEB liability associated with the Tennessee Housing Development Agency was 0.1909649%, representing the first-time presentation of this proportion. The proportion of the collective total OPEB associated with the Tennessee Development Housing Agency was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017 and a measurement date of June 30, 2017.

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	The premium subsidies provided to retirees in the Closed Tennessee OPEB Plan are assumed to remain unchanged for the entire projection; therefore trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017 pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants

Notes to the Financial Statements (Continued)

dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2 percent load for males and a -3 percent load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10 percent load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20 Year Municipal GO (General Obligation) AA index.

Changes in assumptions – The discount rate was changed from 2.92 percent as of the beginning of the measurement period to 3.56 percent as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary governments proportionate share of the Tennessee Housing Development Agency's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate. The Tennessee Housing Development Agency does not report a proportionate share of the OPEB liability for the employees in the TNP.

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Primary government's share of the collective total OPEB liability	\$ 383	\$ 339	\$ 300

OPEB expense – For the fiscal year ended June 30, 2018, the primary government recognized OPEB expense of \$15 thousand for employees of the Tennessee Housing Development Agency participating in the TNP.

Total OPEB Expense – The total OPEB expense for the year ended June 30, 2018 was \$289 thousand, which consisted of OPEB expense of \$274 thousand for the EGOP and \$15 thousand paid by the Tennessee Housing Development Agency for the TNP.

Note 10. On-Behalf Payments

During the year ended June 30, 2018, the State of Tennessee made payments of \$7,976 on behalf of THDA for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee

Notes to the Financial Statements (Continued)

OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 11. Payments to Primary Government

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

Note 12. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2018, Tennessee Housing Development Agency implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. GASB Statement 75 establishes standards for the measurement, recognition, and display of the OPEB liability and related expenses, deferred inflows, deferred outflows, note disclosure and required supplementary information. The implementation of GASB 75 resulted in a cumulative adjustment to the beginning net position of \$(1,780,287). This cumulative adjustment does not include related deferred inflows and deferred outflows of resources.

Note 13. Subsequent Events

On July 1, 2018, the agency used \$13,075,000 of Residential Finance Program Bonds, Issue 2018-2, to refund bonds previously issued in the Homeownership Program (this amount consists of \$13,075,000 early redemption). The carrying amount of these bonds was \$13,075,000. The refunding reduced the agency's debt service by \$3,199,665 over the next 11 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$1,636,564.

On July 27, 2018, THDA requested to withdraw approximately \$23,376,000 of excess funds from the Homeownership Program Bond Resolution to fund the acquisition of servicing rights from U.S. Bank. On July 30, 2018, THDA wired \$15,585,487 to U.S. Bank as a one-time servicing

Notes to the Financial Statements (Continued)

release and transfer fee payment. On August 6, 2018, THDA transferred \$7,902,932 to Volunteer Mortgage Loan Servicing (VMLS) to fund the VMLS Escrow Account for escrow advances.

Residential Finance Program Bonds, Issue 2018-3, were sold on September 6, 2018. The bond maturities are as follows:

	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
Series			
2018-3	7/1/2019 – 7/1/2049	\$149,900,000	1.500 to 4.250

Residential Finance Program Bonds, Issue 2018-4, were authorized by the board of directors on September 25, 2018, not to exceed \$225,000,000. The sale of the bonds will occur no later than December 31, 2018.

Residential Finance Program Bonds, Issue 2019-1, were authorized by the board of directors on November 13, 2018, not to exceed \$175,000,000. The sale of the bonds will occur no later than June 30, 2019.

Residential Finance Program Bonds, Issue 2018-4, were sold on November 15, 2018. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2018-4	7/1/2019 – 7/1/2049	\$225,000,000	1.875 to 4.500

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA's Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentag e of the Total Pension Liability
2018	0.170803%	\$35	\$3,068	1.15%	131.51%
2017	0.391715%	\$33	\$1,661	1.99%	130.56%
2016	0.457171%	\$13	\$498	2.60%	142.55%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.427994%	\$7,659	\$10,268	74.60%	88.88%
2017	0.419391%	7,652	10,240	74.73%	87.96%
2016	0.421046%	5,429	10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
State and Higher Education Employee Retirement Plan Within TCRS

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2018	\$57	\$57	\$-	\$4,410	1.29%
2017	35	35		3,068	1.14%
2016	47	47	-	1,661	2.81%
2015	19	19	-	498	3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
Closed State and Higher Education Employee Pension Plan With TCRS

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2018	\$1,891	\$1,891	\$-	\$ 10,024	18.87%
2017	1,542	1,542	-	10,268	15.02%
2016	1,539	1,539	-	10,240	15.03%
2015	1,652	1,652	-	10,994	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%
2009	1,201	1,201	-	9,224	13.02%

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of Collective Total OPEB Liability
Closed State Employee Group OPEB Plan

(Expressed in Thousands)

EGOP

	<u>2018</u>
Employer proportion of the collective total OPEB liability	0.2664798%
Employer proportionate share of the collective total OPEB liability	\$ 3,578
Covered-employee payroll	\$ 9,720
Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	36.81%

Notes to Schedule

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of Collective Total OPEB Liability
Closed Tennessee OPEB Plan

(Expressed in Thousands)

TNP	2018
Employer proportion of the collective total OPEB liability	0.00%
Employer proportionate share of the collective total OPEB liability	\$ -
Primary government proportionate share of the collective total OPEB liability	<u>\$ 339</u>
Collective total OPEB liability	<u>\$ 339</u>
 Covered-employee payroll	 \$ 10,005
 Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	 0.00%

Notes to Schedule

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 4,148	\$ 13,031	\$ 28,457	\$ 19,785	\$ 150,770	\$ 216,191
Investments	-	735	7,145	8,215	67,784	83,879
Receivables:						
Accounts	-	294	532	-	13	839
Interest	-	19	1,656	1,967	7,513	11,155
First mortgage loans	155	2,185	12,897	6,964	37,567	59,768
Due from federal government	34,977	-	-	-	-	34,977
Due from other funds	-	-	-	-	3,167	3,167
Total current assets	39,280	16,264	50,687	36,931	266,814	409,976
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	31,714	-	33,942	363	534	66,553
Investments	-	-	58,514	20,351	48,947	127,812
Investment Interest receivable	-	-	548	69	173	790
Investments	-	1,744	-	-	46,851	48,595
First mortgage loans receivable	534	48,811	243,154	258,555	1,507,348	2,058,402
Second mortgage loans receivable	-	-	38,108	-	-	38,108
Allowance for uncollectable second mortgages	-	-	(14,031)	-	-	(14,031)
Unearned service release premiums	1,106	-	-	-	-	1,106
Advance to local government	3,135	-	-	-	-	3,135
Net pension asset	35	-	-	-	-	35
Capital assets:						
Furniture and equipment	5,108	-	-	-	-	5,108
Less accumulated depreciation	(2,232)	-	-	-	-	(2,232)
Total noncurrent assets	39,400	50,555	360,235	279,338	1,603,853	2,333,381
Total assets	78,680	66,819	410,922	316,269	1,870,667	2,743,357
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	-	-	441	441
Deferred outflows related to pensions	3,931	-	-	-	-	3,931
Deferred outflows related to OPEB	237	-	-	-	-	237
Total deferred outflows of resources	4,168	-	-	-	441	4,609
LIABILITIES						
Current liabilities:						
Accounts payable	15,757	13	6	30	69	15,875
Accrued payroll and related liabilities	680	-	-	-	-	680
Compensated absences	736	-	-	-	-	736
Due to primary government	91	-	-	-	-	91
Interest payable	-	-	4,289	4,433	23,459	32,181
Escrow deposits	2,719	-	-	-	-	2,719
Prepayments on mortgage loans	-	-	147	128	930	1,205
Due to federal government	29,517	-	-	-	-	29,517
Due to other funds	392	-	2,775	-	-	3,167
Bonds payable	-	-	28,545	11,450	47,950	87,945
Total current liabilities	49,892	13	35,762	16,041	72,408	174,116
Noncurrent liabilities:						
Bonds payable	-	-	194,843	251,696	1,594,228	2,040,767
Compensated absences	630	-	-	-	-	630
Net pension liability	7,659	-	-	-	-	7,659
Net OPEB liability	3,578	-	-	-	-	3,578
Escrow deposits	696	192	-	-	9,708	10,596
Arbitrage rebate payable	-	-	365	-	-	365
Total noncurrent liabilities	12,563	192	195,208	251,696	1,603,936	2,063,595
Total liabilities	62,455	205	230,970	267,737	1,676,344	2,237,711
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	228	-	-	-	-	228
Deferred inflows related to OPEB	137	-	-	-	-	137
Total deferred inflows of resources	365	-	-	-	-	365
NET POSITION						
Net investment in capital assets	2,876	-	-	-	-	2,876
Restricted for single family bond programs	-	-	179,952	48,532	194,764	423,248
Restricted for grant programs	-	12,080	-	-	-	12,080
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for net pension asset	35	-	-	-	-	35
Unrestricted	13,964	54,534	-	-	-	68,498
Total net position	\$ 20,028	\$ 66,614	\$ 179,952	\$ 48,532	\$ 194,764	\$ 509,890

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ 10	\$ -	\$ 14,521	\$ 13,277	\$ 62,297	\$ 90,105
Investment income:						
Interest	220	157	2,711	785	3,152	7,025
Net increase (decrease) in the fair value of investments	-	6	(2,096)	(461)	(1,736)	(4,287)
Federal grant administration fees	15,279	-	-	-	-	15,279
Fees and other income	4,478	1	-	-	724	5,203
Total operating revenues	19,987	164	15,136	13,601	64,437	113,325
OPERATING EXPENSES						
Salaries and benefits	20,177	-	-	-	-	20,177
Contractual services	6,079	-	-	-	135	6,214
Materials and supplies	1,436	-	-	-	-	1,436
Rentals and insurance	12	-	-	-	-	12
Other administrative expenses	836	-	-	-	-	836
Other program expenses	598	7	3,594	254	1,119	5,572
Interest expense	-	19	9,127	8,951	40,142	58,239
Mortgage service fees	-	137	948	1,000	4,748	6,833
Issuance costs	-	-	-	-	3,812	3,812
Depreciation	476	-	-	-	-	476
Total operating expenses	29,614	163	13,669	10,205	49,956	103,607
Operating income (loss)	(9,627)	1	1,467	3,396	14,481	9,718
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	317,323	-	-	-	-	317,323
Other grant revenue	-	3	-	-	-	3
Federal grants expenses	(317,388)	-	-	-	-	(317,388)
Local grants expenses	(7,952)	-	-	-	-	(7,952)
Total nonoperating revenues (expenses)	(8,017)	3	-	-	-	(8,014)
Income (loss) before transfers	(17,644)	4	1,467	3,396	14,481	1,704
Transfers (to) other funds	-	(6,531)	(10,576)	(7,910)	-	(25,017)
Transfers from other funds	20,764	-	-	-	4,253	25,017
Change in net position	3,120	(6,527)	(9,109)	(4,514)	18,734	1,704
Total net position, July 1	18,688	73,141	189,061	53,046	176,030	509,966
Cumulative effect of a change in accounting principle	(1,780)	-	-	-	-	(1,780)
Total net position, July 1, as restated	16,908	73,141	189,061	53,046	176,030	508,186
Total net position, June 30	\$ 20,028	\$ 66,614	\$ 179,952	\$ 48,532	\$ 194,764	\$ 509,890

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ 1,270	\$ 3,912	\$ 90,115	\$ 68,270	\$ 209,833	\$ 373,400
Receipts from federal government	15,030	-	-	-	-	15,030
Receipts from other funds	2,255	-	485	-	-	2,740
Other miscellaneous receipts	4,478	1	-	-	724	5,203
Acquisition of mortgage loans	-	(4,859)	(10,254)	-	(448,304)	(463,417)
Payments to service mortgages	(1,106)	(137)	(948)	(1,000)	(4,748)	(7,939)
Payments to suppliers	(10,169)	-	(4,064)	(1,003)	(1,235)	(16,471)
Payments to federal government	-	-	(1,490)	-	-	(1,490)
Payments to other funds	-	-	-	-	(2,740)	(2,740)
Payments to or for employees	(20,844)	-	-	-	-	(20,844)
Net cash provided (used) by operating activities	(9,086)	(1,083)	73,844	66,267	(246,470)	(116,528)
Cash flows from non-capital financing activities:						
Operating grants received	313,997	3	-	-	-	314,000
Transfers in (out)	20,764	(6,531)	10,761	(7,910)	(17,084)	-
Proceeds from sale of bonds	-	-	-	-	469,989	469,989
Operating grants paid	(319,857)	-	-	-	-	(319,857)
Call premium paid	-	-	(14)	-	-	(14)
Cost of issuance paid	-	-	-	-	(3,812)	(3,812)
Principal payments	-	-	(101,875)	(57,825)	(155,025)	(314,725)
Interest paid	-	(19)	(11,955)	(10,696)	(39,816)	(62,486)
Net cash provided (used) by non-capital financing activities	14,904	(6,547)	(103,083)	(76,431)	254,252	83,095
Cash flows from capital and related financing activities:						
Purchases of capital assets	(1,542)	-	-	-	-	(1,542)
Net cash used by capital and related financing activities	(1,542)	-	-	-	-	(1,542)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	15,587	49,231	21,430	117,222	203,470
Purchases of investments	-	(15,709)	(50,725)	(32,262)	(163,821)	(262,517)
Investment interest received	220	157	2,933	765	3,076	7,151
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	34	143	79	437	693
Net cash provided (used) by investing activities	220	69	1,582	(9,988)	(43,086)	(51,203)
Net increase (decrease) in cash and cash equivalents	4,496	(7,561)	(27,657)	(20,152)	(35,304)	(86,178)
Cash and cash equivalents, July 1	31,366	20,592	90,056	40,300	186,608	368,922
Cash and cash equivalents, June 30	\$ 35,862	\$ 13,031	\$ 62,399	\$ 20,148	\$ 151,304	\$ 282,744

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (9,627)	\$ 1	\$ 1,467	\$ 3,396	\$ 14,481	\$ 9,718
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	476	-	-	-	-	476
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	-	(83)	(532)	-	769	154
(Increase) decrease in mortgage interest receivable	-	-	905	591	(1,155)	341
(Increase) in pension asset	(2)	-	-	-	-	(2)
(Increase) in deferred pension outflows	(67)	-	-	-	-	(67)
Decrease in deferred OPEB outflows	4	-	-	-	-	4
(Increase) decrease in mortgage loans receivable	-	(940)	65,055	54,449	(307,034)	(188,470)
(Increase) in due from federal government	(249)	-	-	-	-	(249)
Decrease in interfund receivables	2,255	-	485	-	-	2,740
(Decrease) in interfund payables	-	-	-	-	(2,740)	(2,740)
Increase (decrease) in accounts payable	228	83	(1,303)	(796)	6,671	4,883
(Decrease) in unearned service release premiums	(1,106)					(1,106)
Increase in accrued payroll / compensated absences	100	-	-	-	-	100
(Decrease) in due to primary government	(632)	-	-	-	-	(632)
(Decrease) in arbitrage rebate liability	-	-	(745)	-	-	(745)
Increase in pension liability	7	-	-	-	-	7
(Decrease) in OPEB liability	(104)					(104)
(Decrease) in deferred pension inflows	(286)	-	-	-	-	(286)
Increase in deferred OPEB inflows	137	-	-	-	-	137
Investment income included as operating revenue	(220)	(163)	(615)	(324)	(1,416)	(2,738)
Interest expense included as operating expense	-	19	9,127	8,951	40,142	58,239
Issuance cost included as operating expense	-	-	-	-	3,812	3,812
Total adjustments	541	(1,084)	72,377	62,871	(260,951)	(126,246)
Net cash provided (used) by operating activities	\$ (9,086)	\$ (1,083)	\$ 73,844	\$ 66,267	\$ (246,470)	\$ (116,528)
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	\$ -	\$ (43)	\$ (1,633)	\$ (560)	\$ (2,585)	\$ (4,821)
Total noncash investing, capital, and financing activities	\$ -	\$ (43)	\$ (1,633)	\$ (560)	\$ (2,585)	\$ (4,821)

***UNAUDITED FINANCIAL
INFORMATION***

September 30, 2018

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

	September 30, 2018					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 9/30/2018
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,603	\$ 11,289	\$ 17,924	\$ 24,687	\$ 155,750	\$ 212,253
Investments	-	723	3,872	9,458	47,882	61,935
Receivables:						
Accounts	7,305	409	-	-	-	7,714
Interest	-	35	1,449	1,692	7,654	10,830
First mortgage loans	155	2,203	13,473	7,673	41,836	65,340
Due from federal government	22,639	-	-	-	-	22,639
Due from other funds	-	-	-	-	27,131	27,131
Total current assets	32,702	14,659	36,718	43,510	280,253	407,842
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	46,643	-	8,397	135	683	55,858
Investments	-	-	58,709	15,812	51,837	126,358
Investment interest receivable	-	-	287	102	337	726
Investments	-	1,740	293	328	36,668	39,029
First mortgage loans receivable	531	48,966	232,678	246,784	1,644,785	2,173,744
Second mortgage loans receivable	-	-	41,654	-	-	41,654
Allowance for forgivable second mortgages	-	-	(15,456)	-	-	(15,456)
Unearned Service Release Premiums	17,473	-	-	-	-	17,473
Advance to local government	3,138	-	-	-	-	3,138
Net pension asset	35	-	-	-	-	35
Capital assets:						
Furniture and equipment	5,108	-	-	-	-	5,108
Less accumulated depreciation	(2,232)	-	-	-	-	(2,232)
Total noncurrent assets	70,696	50,706	326,562	263,161	1,734,310	2,445,435
Total assets	103,398	65,365	363,280	306,671	2,014,563	2,853,277
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	-	-	417	417
Deferred outflows related to pensions	3,931	-	-	-	-	3,931
Deferred outflows related to OPEB	237	-	-	-	-	237
Total deferred outflows of resources	4,168	-	-	-	417	4,585
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 1,563	\$ 13	\$ 817	\$ 1,135	\$ 2,160	\$ 5,688
Accrued payroll and related liabilities	680	-	-	-	-	680
Compensated absences	736	-	-	-	-	736
Interest payable	-	-	1,923	2,150	13,840	17,913
Escrow deposits	27,919	-	-	-	-	27,919
Prepayments on mortgage loans	-	-	130	110	790	1,030
Due to federal government	18,485	-	-	-	-	18,485
Due to other funds	23,105	-	4,026	-	-	27,131
Bonds payable	-	-	23,650	21,665	69,905	115,220
Total current liabilities	72,488	13	30,546	25,060	86,695	214,802
Noncurrent liabilities:						
Bonds payable	-	-	179,515	233,630	1,696,003	2,109,148
Compensated absences	630	-	-	-	-	630
Net pension liability	7,659	-	-	-	-	7,659
Total OPEB liability	3,578	-	-	-	-	3,578
Escrow deposits	1,991	202	-	-	8,213	10,406
Arbitrage rebate payable	-	-	365	-	-	365
Total noncurrent liabilities	13,858	202	179,880	233,630	1,704,216	2,131,786
Total liabilities	86,346	215	210,426	258,690	1,790,911	2,346,588
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	228	-	-	-	-	228
Deferred inflows related to OPEB	137	-	-	-	-	137
Total deferred inflows of resources	365	-	-	-	-	365
NET POSITION						
Net investment in capital assets	2,876	-	-	-	-	2,876
Restricted for single family bond programs	-	-	152,854	47,981	224,069	424,904
Restricted for grant programs	-	15,823	-	-	-	15,823
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for pension asset	35	-	-	-	-	35
Unrestricted	14,791	49,327	-	-	-	64,118
Total net position	\$ 20,855	\$ 65,150	\$ 152,854	\$ 47,981	\$ 224,069	\$ 510,909

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Three Months Ended September 30, 2018

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 9/30/2018
OPERATING REVENUES						
Mortgage interest income	\$ -	\$ -	\$ 2,941	\$ 2,845	\$ 17,885	\$ 23,671
Investment income:						
Interest	20	53	595	203	920	1,791
Net increase (decrease) in the fair value of investments	-	(12)	(415)	(17)	(312)	(756)
Federal grant administration fees	3,393	-	-	-	-	3,393
Fees and other income	2,649	-	-	4	12	2,665
Total operating revenues	6,062	41	3,121	3,035	18,505	30,764
OPERATING EXPENSES						
Salaries and benefits	5,341	-	-	-	-	5,341
Contractual services	1,877	-	-	-	-	1,877
Materials and supplies	313	-	-	-	-	313
Rentals and insurance	3	-	-	-	-	3
Other administrative expenses	185	-	-	-	-	185
Other program expenses	325	17	1,803	-	473	2,618
Interest expense	-	-	1,788	2,031	12,320	16,139
Mortgage service fees	-	34	73	76	408	591
Issuance costs	-	-	-	-	1,072	1,072
Total operating expenses	8,044	51	3,664	2,107	14,273	28,139
Operating income (loss)	(1,982)	(10)	(543)	928	4,232	2,625
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	69,132	-	-	-	-	69,132
Federal grants expenses	(69,467)	-	-	-	-	(69,467)
Local grants expenses	(1,271)	-	-	-	-	(1,271)
Total nonoperating revenues (expenses)	(1,606)	-	-	-	-	(1,606)
Income (loss) before transfers	(3,588)	(10)	(543)	928	4,232	1,019
Transfers (to) other funds	-	(1,454)	(26,555)	(1,479)	-	(29,488)
Transfers from other funds	4,415	-	-	-	25,073	29,488
Change in net position	827	(1,464)	(27,098)	(551)	29,305	1,019
Total net position, July 1	20,028	66,614	179,952	48,532	194,764	509,890
Total net position, End of period	\$ 20,855	\$ 65,150	\$ 152,854	\$ 47,981	\$ 224,069	\$ 510,909

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Three Months Ended September 30, 2018

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 9/30/2018
Cash flows from operating activities:						
Receipts from customers	\$ 19,190	\$ 783	\$ 17,569	\$ 15,275	\$ 60,230	\$ 113,047
Receipts from federal government	3,144	-	-	-	-	3,144
Receipts from other funds	22,713	-	1,251	-	-	23,964
Other miscellaneous receipts	2,649	-	-	-	12	2,661
Acquisition of mortgage loans	-	(1,062)	(4,702)	-	(184,081)	(189,845)
Payments of Service Release Premiums	(16,367)	-	-	-	-	(16,367)
Payments to service mortgages	-	(34)	(73)	(76)	(408)	(591)
Payments to suppliers	(3,572)	(17)	(2,416)	-	-	(6,005)
Payments to other funds	-	-	-	-	(23,964)	(23,964)
Payments to or for employees	(5,441)	-	-	-	-	(5,441)
Net cash provided (used) by operating activities	<u>22,316</u>	<u>(330)</u>	<u>11,629</u>	<u>15,199</u>	<u>(148,211)</u>	<u>(99,397)</u>
Cash flows from non-capital financing activities:						
Operating grants received	70,687	-	-	-	-	70,687
Transfers in (out)	4,415	(1,454)	(26,550)	(1,479)	25,068	-
Proceeds from sale of bonds	-	-	-	-	153,683	153,683
Operating grants paid	(84,054)	-	-	-	-	(84,054)
Cost of issuance paid	-	-	-	-	(1,072)	(1,072)
Principal payments	-	-	(20,075)	(7,720)	(28,665)	(56,460)
Interest paid	-	-	(4,301)	(4,445)	(23,203)	(31,949)
Net cash provided (used) by non-capital financing activities	<u>(8,952)</u>	<u>(1,454)</u>	<u>(50,926)</u>	<u>(13,644)</u>	<u>125,811</u>	<u>50,835</u>
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	-	8,105	12,384	28,594	49,083
Purchases of investments	-	-	(5,770)	(9,456)	(1,855)	(17,081)
Investment interest received	20	37	854	168	641	1,720
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	5	35	23	144	207
Net cash provided by investing activities	<u>20</u>	<u>42</u>	<u>3,224</u>	<u>3,119</u>	<u>27,524</u>	<u>33,929</u>
Net increase (decrease) in cash and cash equivalents	13,384	(1,742)	(36,073)	4,674	5,124	(14,633)
Cash and cash equivalents, July 1	<u>35,862</u>	<u>13,031</u>	<u>62,399</u>	<u>20,148</u>	<u>151,304</u>	<u>282,744</u>
Cash and cash equivalents, End of period	<u>\$ 49,246</u>	<u>\$ 11,289</u>	<u>\$ 26,326</u>	<u>\$ 24,822</u>	<u>\$ 156,428</u>	<u>\$ 268,111</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Three Months Ended September 30, 2018

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 9/30/2018
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (1,982)	\$ (10)	\$ (543)	\$ 928	\$ 4,232	\$ 2,625
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(7,305)	(115)	532	-	13	(6,875)
(Increase) decrease in mortgage interest receivable	-	(1)	208	277	(26)	458
(Increase) decrease in mortgage loans receivable	-	(173)	7,779	11,062	(141,706)	(123,038)
(Increase) in due from federal government	(249)	-	-	-	-	(249)
Decrease in interfund receivables	22,713	-	1,251	-	-	23,964
(Decrease) in interfund payables	-	-	-	-	(23,964)	(23,964)
Increase in accounts payable	25,617	10	794	1,087	456	27,964
(Decrease) in unearned service release premiums	(16,367)	-	-	-	-	(16,367)
(Decrease) in due to primary government	(91)	-	-	-	-	(91)
Investment income included as operating revenue	(20)	(41)	(180)	(186)	(608)	(1,035)
Interest expense included as operating expense	-	-	1,788	2,031	12,320	16,139
Issuance cost included as operating expense	-	-	-	-	1,072	1,072
Total adjustments	<u>24,298</u>	<u>(320)</u>	<u>12,172</u>	<u>14,271</u>	<u>(152,443)</u>	<u>(102,022)</u>
Net cash provided (used) by operating activities	\$ <u>22,316</u>	\$ <u>(330)</u>	\$ <u>11,629</u>	\$ <u>15,199</u>	\$ <u>(148,211)</u>	\$ <u>(99,397)</u>
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	-	-	(442)	(102)	(640)	(1,184)
Total noncash investing, capital, and financing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (442)</u>	<u>\$ (102)</u>	<u>\$ (640)</u>	<u>\$ (1,184)</u>

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the “Working Agreements”). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA’s security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA’s rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent’s privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the “O.A. Guide”), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA no longer has servicing agreements with outside entities. As of August 1, 2018, all servicing of THDA Program Loans is handled by Volunteer Mortgage Loan Servicing, a division of THDA. See Appendix G under the heading “Loan Servicing” for more information.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove and in Appendix G.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the “General Residential Finance Program Bond Resolution.”

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

“*Account*” means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

“*Accountant*” means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

“*Act*” means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

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

“*Authorized Officer*” means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

“*Bond*” or “*Bonds*” means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

“*Bond Counsel's Opinion*” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

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

“*Bond Reserve Fund*” means the Bond Reserve Fund established pursuant to Section 5.1.

“*Bond Reserve Fund Requirement*” means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

“*Code*” means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

- (1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;
- (2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

"Program Security" means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

"Projected Cash Flow Statement" means a Certificate delivered pursuant to the provisions of Section 7.11.

"Rating Agency" means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody's and S&P.

"Redemption Account" means the Redemption Account which is established and created in the Revenue Fund pursuant to this Resolution.

"Redemption Date" means the date upon which Bonds are to be called for redemption pursuant to this Resolution.

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

"Refunding Bond" means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

"Resolution" means this Resolution and any amendments or supplements made in accordance with its terms.

"Revenue Fund" means the Revenue Fund established pursuant to Section 5.1.

"Revenues" means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

"S&P" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, and any successor.

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

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

"State" means the State of Tennessee.

"Supplemental Resolution" means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

"THDA" means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

"Trustee" means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI
REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

(1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or

(2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or

(3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of or Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$823,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

Amount

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Outstanding as of December 31, 2018 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A1	December 23, 2009	\$ 100,000,000	\$ --	\$ 2,395,000	3.96%
2010-A	June 17, 2010	74,710,000	85,290,000	9,500,000	3.85
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	36,845,000	3.15
2011-A	April 14, 2011	40,000,000	60,000,000	11,280,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	42,485,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,850,000	34,710,000	38,120,000	3.01
2015-A	May 28, 2015	<u>163,850,000</u>	<u>--</u>	<u>91,530,000</u>	2.78
TOTAL		<u>\$ 523,850,000</u>	<u>\$ 300,000,000</u>	<u>\$ 232,155,000</u>	

(1) Bond yield.

As of November 30, 2018 (unaudited), 2,816 mortgage loans in the approximate aggregate principal amount of \$229,812,418 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$567,690,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of December 31, 2018 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-2	September 30, 2009	\$ 75,000,000	\$ 15,780,000	4.06
2010-1	October 13, 2010	120,700,000	29,135,000	3.57
2011-1	December 1, 2011	141,255,000	45,470,000	3.80
2012-1	July 19, 2012	133,110,000	54,570,000	3.26
2012-2	November 15, 2012	97,625,000	42,230,000	2.92
TOTAL		<u>\$ 567,690,000</u>	<u>\$ 187,185,000</u>	

(1) Bond yield.

As of November 30, 2018 (unaudited), 4,349 mortgage loans in the approximate aggregate principal amount of \$201,425,972 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets relating to bond proceeds, including mortgage loans, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution. Certain assets and investments not related to bond proceeds remain in the General Fund of the 1974 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. THDA established eligibility requirements for the mortgage credit certificate program and loans assisted with a mortgage credit certificate may not be funded with proceeds of qualified mortgage bonds such as the Issue 2019-1 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets. These assets are invested only in investments authorized by the Act, THDA's investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA's investment of THDA assets to the Executive Director of THDA. For information related to THDA's investment of assets held under the General Resolution, see FINANCIAL SUMMARY OF RESIDENTAL FINANCE PROGRAM—Investments.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

RESIDENTIAL FINANCE PROGRAM LOAN ORIGINATING AND SERVICING PROCEDURES

General

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2019-1 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

Effective as of August 1, 2018, THDA income limits will range from \$60,900 to \$104,860 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

THDA is self-servicing its entire mortgage loan portfolio through Volunteer Mortgage Loan Servicing ("VMLS"), a division of THDA. VMLS began servicing operations as of November 1, 2016, with the servicing of a small THDA mortgage loan portfolio previously serviced by Pinnacle Bank. Since June 1, 2018, all THDA Originating Agents have been transferring all servicing for new THDA Program Loans directly to VMLS. The remaining servicing portfolio, previously serviced by U.S. Bank, was transferred to THDA on August 1, 2018; in conjunction with such transfer THDA paid \$23,376,000 to U.S. Bank with funds withdrawn from the lien of the 1985 General Resolution in accordance with its terms as a one-time servicing release and transfer fee.

March 21, 2019

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$175,000,000 Issue 2019-1 (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$175,000,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2019-1 (Non-AMT) (the "Issue 2019-1 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2019-1 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on November 13, 2018, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on February 12, 2019 (together, the "Supplemental Resolution," and, together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2019-1 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2019-1 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2019-1 Bonds are being issued to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2019-1 Bonds in order that interest on the Issue 2019-1 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2019-1 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.
2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.

3. The Issue 2019-1 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2019-1 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2019-1 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.

6. The Issue 2019-1 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.

7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2019-1 Bonds is excluded from gross income of the owners thereof for federal income tax purposes and (ii) interest on the Issue 2019-1 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals under the alternative minimum tax provisions of the Code.

8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2019-1 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2019-1 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2019-1 Bonds may have to take interest on such Issue 2019-1 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2019-1 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2019-1 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2019-1 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES**Delinquencies and Foreclosures as of September 30, 2018*

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 3.04%, based on a total of 16,597 Program Loans as of September 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	426	\$ 41,442,638	3.05%	1.15% ⁽⁴⁾
VA Guaranteed	7	670,961	2.11	0.87
Privately Insured	30	2,407,682	3.68	0.68
USDA/RD Guaranteed.....	36	2,582,641	3.83	(5)
Uninsured.....	5	308,508	0.93	(5)
TOTAL	<u>504</u>	<u>\$ 47,412,430⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2018.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.34%, based on a total of 16,597 Program Loans as of September 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	618	\$ 59,661,632	4.42%	1.55% ⁽⁴⁾
VA Guaranteed	11	714,521	3.31	1.19
Privately Insured	48	3,461,082	5.89	0.94
USDA/RD Guaranteed.....	31	2,170,545	3.30	(5)
Uninsured.....	12	859,273	2.24	(5)
TOTAL	<u>720</u>	<u>\$ 66,867,054⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bond issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding loans financed pursuant to the 1974 General Resolution that were transferred to the General Resolution as of June 30, 2014.

The overall rate of Program Loans in foreclosure was 0.26%, based on a total of 16,597 Program Loans as of September 30, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2018 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2018, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	33	\$ 3,103,475	0.24%	0.53% ⁽⁴⁾
VA Guaranteed	2	132,797	0.60	0.70
Privately Insured	2	93,072	0.25	0.34
USDA/RD Guaranteed.....	4	252,649	0.43	(5)
Uninsured.....	2	195,224	0.37	(5)
TOTAL	43	\$ 3,777,217 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of June 30, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.92%, based on a total of 15,717 Program Loans as of June 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	256	\$ 25,949,023	1.94%	0.90% ⁽⁴⁾
VA Guaranteed	1	91,632	0.33	0.72
Privately Insured	17	1,360,302	1.97	0.64
USDA/RD Guaranteed.....	22	1,528,002	2.51	(5)
Uninsured.....	6	540,523	1.19	(5)
TOTAL	302	\$ 29,469,483 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.28%, based on a total of 15,717 Program Loans as of June 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	550	\$ 50,668,667	4.18%	1.26% ⁽⁴⁾
VA Guaranteed	14	683,883	4.64	1.11
Privately Insured	59	3,487,636	6.85	0.95
USDA/RD Guaranteed.....	36	2,377,390	4.10	(5)
Uninsured.....	14	712,446	2.77	(5)
TOTAL	<u>673</u>	<u>\$ 57,930,022⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.67%, based on a total of 15,717 Program Loans as of June 30, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of June 30, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2018, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	92	\$ 7,868,238	0.70%	0.45% ⁽⁴⁾
VA Guaranteed	3	253,872	0.99	0.75
Privately Insured	4	189,208	0.46	0.37
USDA/RD Guaranteed.....	6	295,347	0.68	(5)
Uninsured.....	1	19,835	0.20	(5)
TOTAL	<u>106</u>	<u>\$ 8,626,500⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of March 31, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.40%, based on a total of 14,705 Program Loans as of March 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	177	\$ 16,691,322	1.45%	0.90% ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.59
Privately Insured	11	879,308	1.22	0.58
USDA/RD Guaranteed.....	15	950,559	1.81	⁽⁵⁾
Uninsured.....	3	189,182	0.63	⁽⁵⁾
TOTAL	<u>206</u>	<u>\$ 18,710,370⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.05%, based on a total of 14,705 Program Loans as of March 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	607	\$ 55,629,626	4.97%	1.60% ⁽⁴⁾
VA Guaranteed	19	1,399,344	6.74	1.17
Privately Insured	62	3,571,790	6.90	1.02
USDA/RD Guaranteed.....	39	2,434,199	4.72	⁽⁵⁾
Uninsured.....	15	799,807	3.17	⁽⁵⁾
TOTAL	<u>742</u>	<u>\$ 63,834,766⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

The overall rate of Program Loans in foreclosure was 0.26%, based on a total of 14,705 Program Loans as of March 31, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2018, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	31	\$ 2,982,828	0.25%	0.48% ⁽⁴⁾
VA Guaranteed	1	117,136	0.35	0.78
Privately Insured	4	461,462	0.44	0.40
USDA/RD Guaranteed.....	2	156,295	0.24	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL.....	38	\$ 3,717,722 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

Delinquencies and Foreclosures as of December 31, 2017

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.08%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2017, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2017

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	252	\$ 24,174,120	2.15%	1.24% ⁽⁴⁾
VA Guaranteed	4	245,240	1.47	0.82
Privately Insured	14	1,165,763	1.51	0.76
USDA/RD Guaranteed.....	21	1,298,996	2.69	(5)
Uninsured.....	3	147,257	0.67	(5)
TOTAL.....	294	\$ 27,031,376 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 5.44%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2017 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2017, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	628	\$ 56,810,693	5.36%	1.85% ⁽⁴⁾
VA Guaranteed	18	1,132,198	6.62	1.32
Privately Insured	67	4,094,874	7.22	1.13
USDA/RD Guaranteed.....	43	2,890,156	5.50	(5)
Uninsured.....	14	820,178	3.13	(5)
TOTAL	<u>770</u>	<u>\$ 65,748,099⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.33%, based on a total of 14,150 Program Loans as of December 31, 2017 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of December 31, 2017 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2017, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2017

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	40	\$ 3,982,561	0.34%	0.51% ⁽⁴⁾
VA Guaranteed	1	117,136	0.37	0.81
Privately Insured	4	463,572	0.43	0.40
USDA/RD Guaranteed.....	2	156,928	0.26	(5)
Uninsured.....	0	0	0.00	(5)
TOTAL	<u>47</u>	<u>\$ 4,720,196⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2017.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these



Tennessee Housing
Development Agency

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2019-2 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that interest on the Issue 2019-2 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals under the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"). In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2019-2 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2019-2 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds

\$200,000,000 Issue 2019-2 (Non-AMT)

Dated: Date of Delivery

Due: As shown on inside front cover

The Issue 2019-2 Bonds (the "Issue 2019-2 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on January 1, 2020, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about June 27, 2019.

CITIGROUP

RAYMOND JAMES

RBC CAPITAL MARKETS

J.P. MORGAN WELLS FARGO SECURITIES

WILEY BROTHERS—AINTREE CAPITAL, LLC

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$200,000,000 Issue 2019-2 (Non-AMT)

\$70,950,000 Serial Bonds

<u>Year</u>	<u>Principal Amount Due January 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>	<u>Principal Amount Due July 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
2020	\$ 900,000	1.40 %	880461YP7	\$ 2,405,000	1.45 %	880461YQ5
2021	2,480,000	1.55	880461YR3	2,505,000	1.60	880461YS1
2022	2,530,000	1.65	880461YT9	2,560,000	1.65	880461YU6
2023	2,590,000	1.70	880461YV4	2,620,000	1.75	880461YW2
2024	2,655,000	1.80	880461YX0	2,685,000	1.80	880461YY8
2025	2,720,000	1.85	880461YZ5	2,755,000	1.90	880461ZA9
2026	2,790,000	1.95	880461ZB7	2,830,000	1.95	880461ZC5
2027	2,870,000	2.00	880461ZD3	2,910,000	2.05	880461ZE1
2028	2,885,000	2.15	880461ZF8	2,880,000	2.20	880461ZG6
2029	2,915,000	2.30	880461ZH4	2,960,000	2.35	880461ZJ0
2030	2,990,000	2.40	880461ZK7	3,000,000	2.45	880461ZL5
2031	3,050,000	2.50	880461ZM3	3,100,000	2.55	880461ZN1
2032	3,155,000	2.60	880461ZP6	3,210,000	2.65	880461ZQ4

\$129,050,000 Term Bonds

<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
July 1, 2034	\$ 13,420,000	2.80 %	880461ZR2
July 1, 2039	38,270,000	3.00	880461ZS0
July 1, 2041	14,260,000	3.10	880461ZT8
January 1, 2048 (PAC)	63,100,000	4.00	880461ZU5

PRICE OF ISSUE 2019-2 BONDS DUE JANUARY 1, 2048 (PAC): 109.793%

PRICE OF ALL REMAINING ISSUE 2019-2 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY
Residential Finance Program Bonds
\$200,000,000 Issue 2019-2 (Non-AMT)

INTRODUCTION

This Official Statement (the “Official Statement”) provides certain information in connection with the issuance by the Tennessee Housing Development Agency (“THDA”) of its Residential Finance Program Bonds, Issue 2019-2 in the aggregate principal amount of \$200,000,000 (the “Issue 2019-2 Bonds” or the “Offered Bonds”).

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the “Act”). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the “General Resolution” or the “2013 General Resolution”) and by a Resolution adopted by THDA on March 26, 2019, as amended and supplemented by the Bond Finance Committee of THDA (the “Bond Finance Committee”) on June 4, 2019 (the “Issue 2019-2 Supplemental Resolution”). The General Resolution and the Issue 2019-2 Supplemental Resolution are herein collectively referred to as the “Resolution.”

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2019-2 Bonds on November 9, 2018.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of April 30, 2019 (unaudited), Bonds in the aggregate principal amount of \$2,024,755,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$220,335,000 were outstanding under THDA’s Housing Finance Program Resolution (the “2009 General Resolution”), and bonds in the aggregate principal amount of \$160,330,000 were outstanding under THDA’s Homeownership Program Resolution (the “1985 General Resolution”). No bonds are outstanding under THDA’s Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”). For more information see “Other Financings—Housing Bond Resolution (Mortgage Finance Program)” in Appendix E.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption “SECURITY AND SOURCES OF PAYMENT OF BONDS”. All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the “Bonds”. The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the “Public Pledge Act”). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee’s codification of Article 9 of the Uniform Commercial Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects that the proceeds of the Issue 2019-2 Bonds will be used to: (i) refund certain bonds issued and outstanding under the 1985 General Resolution, the 2009 General Resolution, and the 2013 General Resolution (collectively, the "Prior Bonds"), (ii) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (iii) pay capitalized interest, if any; (iv) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (v) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds and the refunding of the Prior Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix G.

As a result of the refunding of the Prior Bonds, mortgage loans previously allocable to certain of the Prior Bonds (the Issue 2010-A1 Bonds issued under the 2009 General Resolution, the "Issue 2010-A1 Bonds") in an expected aggregate outstanding amount of approximately \$16,718,171, will be allocated to the Offered Bonds (the "Transferred Program Loans"). See "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS" for information about the Transferred Program Loans. In addition, other investments allocable to the Issue 2010-A1 Bonds in the projected amount of approximately \$4,448,520 will be transferred to accounts established for the Offered Bonds under the General Resolution (the "Transferred Investments"). It is anticipated that the Issue 2010-A1 Bonds will be redeemed prior to maturity on July 1, 2019, at the applicable redemption prices thereof plus accrued interest. No assurance can be provided that the Issue 2010-A1 Bonds will actually be refunded.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution, including the Transferred Program Loans and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" shall include the Transferred Program Loans as well as new Program Loans (including participations therein) financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2019-2 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA does not intend to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance. While the Issue 2019-2 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of March 31, 2019 (unaudited), 18,476 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$1,960,621,777. Based on the outstanding principal balance of Program Loans as of March 31, 2019 (unaudited), approximately 88.27% were FHA insured, approximately 2.17% were VA guaranteed, approximately 2.73% were insured by private mortgage insurance companies, approximately 4.27% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.56% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See "RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data" and Appendix B under the heading "Private Mortgage Insurance Programs".

U.S. Bank National Association (the "Trustee") is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2019-2 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2019-2 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D "2013 GENERAL RESOLUTION". Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, ("DTC"), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F "BOOK-ENTRY-ONLY SYSTEM" for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2019-2 Bonds and is payable on January 1, 2020, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2019-2 Bonds maturing on July 1, 2034, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2033, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2019-2 Term Bonds Due July 1, 2034

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2033	\$ 3,265,000	\$ 3,325,000
2034	3,385,000	3,445,000 (maturity)

The Issue 2019-2 Bonds maturing on July 1, 2039, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2035, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2019-2
Term Bonds Due July 1, 2039**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2035	\$ 3,505,000	\$ 3,575,000
2036	3,645,000	3,715,000
2037	3,785,000	3,855,000
2038	3,930,000	4,010,000
2039	4,085,000	4,165,000 (maturity)

The Issue 2019-2 Bonds maturing on July 1, 2041, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2040, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2019-2
Term Bonds Due July 1, 2041**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2040	\$ 4,245,000	\$ 4,185,000
2041	3,880,000	1,950,000 (maturity)

The Issue 2019-2 Bonds maturing on January 1, 2048 (the "PAC Bonds"), are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2041, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2019-2
PAC Term Bonds Due January 1, 2048**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2041	-	\$ 1,995,000
2042	\$ 4,025,000	4,130,000
2043	4,235,000	4,340,000
2044	4,450,000	4,565,000
2045	4,680,000	4,800,000
2046	4,920,000	5,045,000
2047	5,170,000	5,305,000
2048	5,440,000 (maturity)	

Optional Redemption. Except as otherwise described in the following paragraph, the Issue 2019-2 Bonds maturing on and after January 1, 2029, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after July 1, 2028, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

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The PAC Bonds are subject to redemption at the option of THDA prior to their maturity, either as a whole or in part, at any time on or after July 1, 2028, at the Redemption Prices set forth below (expressed as a percentage of the principal amount to be redeemed) plus accrued interest to the date of redemption:

<u>Redemption Period</u>	<u>Redemption Price</u>
July 1, 2028 to December 31, 2028	102.482 %
January 1, 2029 to June 30, 2029	102.096
July 1, 2029 to December 31, 2029	101.694
January 1, 2030 to June 30, 2030	101.280
July 1, 2030 to December 31, 2030	100.870
January 1, 2031 and thereafter	100.000 %

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2019-2 Principal Payments (as defined below). Any Excess 2019-2 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing January 1, 2020; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2019-2 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds are equal to or less than 400% PSA (as defined below under “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds”), as determined by THDA, then available Excess 2019-2 Principal Payments shall first be applied to redeem PAC Bonds up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds are in excess of 400% PSA, as determined by THDA, then available Excess 2019-2 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds shall first be applied to redeem PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an “Excess Principal PAC Bond Redemption”); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2019-2 Principal Payments which is in excess of 400% PSA, and (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds’ proportionate amount of all Issue 2019-2 Bonds then Outstanding.

“Excess 2019-2 Principal Payments” means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

“Planned Amortization Amount” means the dollar amount applicable to the PAC Bonds for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the PAC Bonds assumed to be redeemed from Excess 2019-2 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds. See “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds” for a description of PSA prepayment rates.

The Planned Amortization Amounts for the PAC Bonds (which assume the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedule

<u>Date</u>	<u>PAC Bonds Planned Amortization Amount</u>
January 1, 2020	\$ 625,000
July 1, 2020	1,505,000
January 1, 2021	3,535,000
July 1, 2021	6,605,000
January 1, 2022	10,645,000
July 1, 2022	15,365,000
January 1, 2023	20,085,000
July 1, 2023	24,540,000
January 1, 2024	28,735,000
July 1, 2024	32,675,000
January 1, 2025	36,370,000
July 1, 2025	39,815,000
January 1, 2026	43,025,000
July 1, 2026	46,000,000
January 1, 2027	48,750,000
July 1, 2027	51,270,000
January 1, 2028	53,605,000
July 1, 2028	55,740,000
January 1, 2029	57,665,000
July 1, 2029	59,385,000
January 1, 2030	60,920,000
July 1, 2030	62,265,000
January 1, 2031	63,100,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the PAC Bonds are redeemed from amounts on deposit in the Issue 2019-2 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds.”

Special Optional Redemption of the Offered Bonds, including Cross Calls. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading “DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds”; (ii) except as otherwise described under the headings “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and “– Mandatory Redemption – 10 Year Rule”, repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, “Code”), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and (b) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bonds to exceed the Planned Amortization Amount shown above in the PAC Bonds Amortization Schedule. The

Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph. See “ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments” and “ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices”.

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof financed with proceeds of the Offered Bonds (directly, or through a series of refundings) shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the related Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedule only if there are no other Offered Bonds outstanding.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans (or portions thereof) financed with proceeds of the Offered Bonds. Commencing on June 1, 2020, 100% of the prepayments and repayments on the Transferred Program Loans will be used to redeem Offered Bonds, and prepayments and repayments of Program Loans (or portions thereof) financed with proceeds of the Offered Bonds other than the Transferred Program Loans during the following periods will be used to redeem Offered Bonds, in accordance with the following approximate 10 year rule percentages, all to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Prepayments and Repayments Receipt Periods</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
June 27, 2019 to May 31, 2020	0.38 %
June 1, 2020 to October 31, 2020	0.44
November 1, 2020 to March 31, 2021	0.93
April 1, 2021 to October 31, 2021	1.79
November 1, 2021 to April 30, 2023	2.34
May 1, 2023 to April 30, 2024	4.23
May 1, 2024 to October 31, 2024	5.30
November 1, 2024 to May 31, 2025	6.03
June 1, 2025 to September 30, 2025	7.48
October 1, 2025 to April 30, 2026	8.65
May 1, 2026 to September 30, 2026	9.61
October 1, 2026 to February 28, 2027	10.77
March 1, 2027 to May 31, 2027	11.47
June 1, 2027 to August 31, 2027	13.03
September 1, 2027 to February 29, 2028	13.73
March 1, 2028 to August 31, 2028	15.04
September 1, 2028 to May 31, 2029	16.16
June 1, 2029 and thereafter	100.00 %

THDA will redeem the Offered Bonds in accordance with these schedules to the extent required to comply with the Code. THDA reserves the right to modify these schedules at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory redemption on February 1, 2020, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2019-2 Bonds Subaccount of the Loan Fund on January 1, 2020, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2019-2 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on December 1, 2022, to the extent any amounts remain on deposit in the Issue 2019-2 Bonds Subaccount of the Loan Fund on November 1, 2022.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding.

Selection By Lot

If less than all of the Issue 2019-2 Bonds of like maturity are to be redeemed, the particular Issue 2019-2 Bonds of such maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2019-2 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 200,000,000.00
Premium on PAC Bonds	6,179,383.00
Transferred Program Loans	16,718,171.39
Transferred Investments	4,448,520.13
TOTAL SOURCES	<u>\$ 227,346,074.52</u>

USES

Deposit to Loan Fund ⁽¹⁾	\$ 209,198,171.39
Redemption of Issue 2010-A1 Bonds.....	7,520,000.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,000,000.00
Deposit to Bond Reserve Fund	8,141,915.03
Costs of Issuance	324,690.00
Underwriters' Fee	1,161,298.10
TOTAL SOURCES	<u>\$ 227,346,074.52</u>

(1) Includes approximately \$16,718,171 in Transferred Program Loans.

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumption that on the transfer date (i) Transferred Program Loans in the aggregate principal amount of approximately \$16,718,171, with a weighted average maturity of approximately 229 months and a weighted average interest rate of approximately 5.45%, will be allocated to the Offered Bonds and (ii) THDA originates approximately \$192,480,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 4.49. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including,

without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2019-2 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA, including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" for descriptions of the various Program Loan products and Appendix G "RESIDENTIAL FINANCE PROGRAM LOAN ORIGINATING AND SERVICING PROCEDURES" for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2019-2 Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 4.49% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2019-2 Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2019-2 Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on April 24, 2019. As of the close of business on May 24, 2019, THDA has committed a total principal amount of approximately \$51,036,882 of Program Loans and has purchased approximately \$17,737,610 outstanding principal balance of loans, all of which are Great Choice Program Loans and Homeownership for the Brave Program Loans that will be allocated to the Offered Bonds. See “RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans”. Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA’s single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

The United States Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) in 2010, and may pass additional legislation impacting the origination and servicing of mortgage loans. Likewise, the Tennessee General Assembly may enact legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA’s single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA’s activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA’s single-family loans could adversely affect the THDA’s ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” “- Special Optional Redemption of the Offered Bonds, including Cross Calls” and “- Mandatory Redemption – 10-Year Rule”.

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds.”

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA’s general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA’s current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA’s determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D “2013 GENERAL RESOLUTION” for a description of Program Expenses. THDA expects to use funds on deposit in the Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters’ fees, initial Trustee’s fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee’s fees, servicing release premiums, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see “THDA – THDA Funds”. THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum; and (iii) funds on deposit in the Issue 2019-2 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term “weighted average life” refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association (“PSA”)) prepayment standard or model (commonly referred to as the “PSA Prepayment Model”).

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, “0% PSA” assumes no prepayments of principal on the Program Loans. “25% PSA” assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. “50% PSA” assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. “75% PSA” assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. “100% PSA” assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. “200% PSA” assumes the principal of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. “300% PSA” assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “400% PSA” assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “500% PSA” assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors’ housing needs, job transfers, unemployment and mortgagors’ net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under “Changes in Federal or State Law” above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds”, and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2019-2 Bond Subaccount of the Loan Fund is applied to finance Program Loans, (ii) approximately \$16,718,171 of Transferred Program Loans with an approximate weighted average maturity of 229 months and an approximate weighted average interest rate of 5.45% will be allocated to the Offered Bonds, (iii) Excess 2019-2 Principal Payments will be used to redeem

PAC Bonds only on Interest Payment Dates, and (iv) the PAC Bonds will be redeemed only in the Planned Amortization Amounts as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds” and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate. For certain information regarding Transferred Program Loans see “DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS” herein.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>PAC Bond Average Life (in years)</u>
0%	25.6
25	21.3
50	14.6
75	9.2
100	5.5
200	5.5
300	5.5
400	5.5
500	4.4

RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

As of April 30, 2019, THDA has issued \$2,558,805,000 total original principal amount of bonds under the General Resolution, of which \$2,024,755,000 (unaudited) were outstanding as of April 30, 2019, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of April 30, 2019 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$ 82,140,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	58,310,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	77,600,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	95,050,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	103,250,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	125,925,000	3.25
Issue 2016-1	May 18, 2016	125,000,000	101,830,000	2.68
Issue 2016-2	October 18, 2016	125,000,000	105,795,000	2.68
Issue 2016-3	November 17, 2016	62,000,000	37,480,000	2.97
Issue 2017-1	March 30, 2017	100,000,000	87,225,000	3.15
Issue 2017-2	June 27, 2017	175,000,000	156,420,000	2.94
Issue 2017-3	September 28, 2017	99,900,000	96,365,000	3.03
Issue 2017-4	December 19, 2017	99,900,000	95,770,000	2.90
Issue 2018-1	March 29, 2018	99,900,000	97,500,000	3.33
Issue 2018-2	June 12, 2018	160,000,000	157,270,000	3.37
Issue 2018-3	September 6, 2018	149,900,000	148,930,000	3.47
Issue 2018-4	November 15, 2018	225,000,000	222,895,000	3.58
Issue 2019-1	March 21, 2019	175,000,000	175,000,000	3.34
TOTAL		\$ 2,558,805,000	\$ 2,024,755,000	

(1) Bond yield.

Origination Experience

THDA's experience from May 30, 2013, to April 30, 2019 (unaudited), regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

<u>Issue of Bonds</u>	<u>Lendable Proceeds⁽²⁾</u>	<u>Program Loans Financed⁽³⁾ as of April 30, 2019</u>		<u>Weighted Average Interest Rate⁽⁴⁾</u>
		<u>Amount</u>	<u>%</u>	
Issue 2013-1	\$ 136,268,395	\$ 136,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	92,340,000	92,340,000	100.00	3.98
Issue 2016-2	91,685,000	91,685,000	100.00	3.87
Issue 2017-1	102,200,000	102,200,000	100.00	4.15
Issue 2017-2	128,090,000	128,090,000	100.00	4.61
Issue 2017-3	90,500,000	90,500,000	100.00	4.62
Issue 2017-4	75,660,000	75,660,000	100.00	4.40
Issue 2018-1	102,600,000	102,600,000	100.00	4.39
Issue 2018-2	143,525,000	143,525,000	100.00	4.61
Issue 2018-3	151,916,000	151,916,000	100.00	4.61
Issue 2018-4	211,450,000	211,450,000	100.00	4.67
Issue 2019-1	162,700,000	133,811,115	82.24	4.67
TOTAL	\$ 2,064,734,875	\$ 2,035,845,831		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on April 24, 2019. As of the close of business on May 24, 2019, THDA has committed a total principal amount of approximately \$51,036,882 of Program Loans and has purchased approximately \$17,737,610 outstanding principal balance of loans, that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing the Offered Bonds, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. As of May 27, 2019, the THDA Household Income Limits range from \$64,500 to \$112,000 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall

satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2019-2 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance. While the Issue 2019-2 Supplemental Resolution provides that Program Loans, or participations therein, to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. On and after October 1, 2013, the THDA primary loan program has included Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. Since October 1, 2013, THDA has provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below. As of March 1, 2017, THDA began providing additional downpayment and closing cost assistance through its Hardest Hit Fund Down Payment Assistance program as described below.

Transferred Program Loans financed prior to September 30, 2013, include the following Program Loans: Great Rate, Great Advantage, Great Start, Disaster Relief and Economic Recovery, and Start (all as described below). THDA no longer makes these types of loans.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 4.5%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans.

Great Choice Plus Loans currently being made are thirty year, 0% interest rate, second lien loans in a principal amount up to 5% of the purchase price of the property purchased. No monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan, provided, however, that the full original principal amount will be forgiven at the end of the thirty year term. THDA began making Great Choice Plus Loans with these terms as of October 3, 2016.

Prior to October 3, 2016, Great Choice Plus Loans were made with the following terms: From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans with a principal amount equal to 4% of the purchase price of the property purchased. From October 1, 2014, to September 30, 2016, Great Choice Plus Loans were 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, the Great Choice Plus loans with these terms will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. These Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA. THDA does not expect that Great Choice Plus loans will be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

Hardest Hit Fund Down Payment Assistance

In March 2017, THDA began providing \$15,000 in downpayment assistance from the fifth round of federal Hardest Hit Fund funding ("HHF-DPA") to eligible borrowers who qualify for THDA Great Choice loans and who are purchasing existing homes in an approved ZIP Code in Tennessee. HHF-DPA is secured by a second deed of trust for a ten year term. HHF-DPA does not bear interest, and there are no monthly payments, but it is due on sale. HHF-DPA is forgiven at 20% per year in years six through ten. A THDA approved Homebuyer Education course is also required.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans are serviced by the Federation of Appalachian Housing Enterprises, Inc., as of January 1, 2015. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. As of December 1, 2016, the maximum loan amount was increased to \$123,750 for Maury, Williamson, Davidson, Rutherford, Wilson and Sumner Counties. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable.

As of March 31, 2019 (unaudited), 148 New Start Program Loans, with an aggregate principal balance of approximately \$7,771,756, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction. Eligible borrowers will also be eligible for Great Choice Plus loans.

As of March 31, 2019 (unaudited), 429 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$52,426,509, were outstanding under the General Resolution. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became transferred program loans allocable to the Issue 2013-1 Bonds under the General Resolution.

As of March 31, 2019 (unaudited), 134 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$6,221,270, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers prior to October 1, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds. THDA also provided downpayment and closing cost assistance in the form of a grant in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made.

As of March 31, 2019 (unaudited), 2,597 Great Rate, 161 Great Advantage, and 1,630 Great Start Program Loans, with an aggregate principal balance of approximately \$341,707,927, were outstanding under the General Resolution. THDA no longer makes loans of this type.

START Program Loans

From September 1993 to December 1998, THDA offered the Special Targeted Affordable Rate for Tennessee Program (the "START Program") using recycled prepayments received under the 1974 General Resolution and certain bond proceeds from bonds issued under the 1974 General Resolution and the 1985 General Resolution; through a series of refundings, certain START Program Loans are allocated to the General Resolution. First lien START Program Loans under the General Resolution had a 5.5% interest rate, were made to borrowers who earned \$17,000 or less per year and who purchased their first home for \$44,000 or less. After October 1, 1997, borrowers who earned \$18,500 or less per year and who purchased their first home for \$47,500 or less were eligible for first lien START Program Loans at a 5.5% interest rate. Except for the more restrictive income and acquisition cost limitations, all other requirements of THDA's Homeownership Program applied.

As of March 31, 2019 (unaudited), 416 START Program Loans having an aggregate principal balance of approximately \$5,627,666 were outstanding under the General Resolution. THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of March 31, 2019 (unaudited), 18,476 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$1,960,621,777 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 316.65 months and an approximate weighted average interest rate of 4.57%.

Tables under this heading, "Residential Finance Program Portfolio Data", do not include data about Transferred Program Loans. For more information about Transferred Program Loans see "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS".

Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of March 31, 2019 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured	15,702	\$ 1,730,578,780	84.99%	88.27%
VA Guaranteed	383	42,595,881	2.07	2.17
Privately Insured	656	53,543,219	3.55	2.73
USDA/RD Guaranteed	1,002	83,758,278	5.42	4.27
Uninsured ⁽²⁾	733	50,145,619	3.97	2.56
TOTAL	18,476	\$ 1,960,621,777⁽⁴⁾	100.00%⁽⁴⁾	100.00%⁽⁴⁾

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution, either upon their direct transfer to the General Resolution or upon the refunding of other THDA obligations, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of March 31, 2019 (unaudited), 656⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$53,543,219 were outstanding under the General Resolution. As of March 31, 2019 (unaudited), THDA had the following information regarding the private mortgage insurers for 654 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance⁽³⁾</u>	<u>Percent of Total Number of Program Loans⁽³⁾</u>	<u>Percent of Total Outstanding Balance of Program Loans⁽³⁾</u>
Arch MI ⁽²⁾	106	\$ 8,393,716	0.57 %	0.43 %
Genworth Mortgage Insurance Corp. (GE)	271	22,493,734	1.47	1.15
MGIC	233	19,253,424	1.26	0.98
Radian Guaranty Inc.	5	150,311	0.03	0.01
Republic Mortgage Insurance Corporation	39	3,074,619	0.21	0.16
TOTAL	654	\$ 53,365,804⁽⁴⁾	3.54 %⁽⁴⁾	2.72 %⁽⁴⁾

(1) The private mortgage insurer is not identified with respect to 2 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA began compiling data with respect to individual private mortgage insurance providers.

(2) Purchased United Guaranty Residential Insurance Co.

(3) Rounded figures.

(4) Rounded total.

Program Loan Interest Rates

The following table summarizes, as of March 31, 2019 (unaudited), the interest rates of the outstanding Program Loans:

<u>Mortgage Rates (%)</u>	<u>Number of Program Loans⁽¹⁾</u>	<u>Outstanding Balance⁽²⁾</u>	<u>Percent of Total Number of Program Loans⁽²⁾</u>	<u>Percent of Total Outstanding Balance⁽²⁾</u>
0.00-1.99	180	\$ 7,865,068	0.97 %	0.40 %
2.00-2.99	2	153,945	0.01	0.01
3.00-3.99	3,262	370,551,457	17.66	18.90
4.00-4.49	3,473	404,528,545	18.80	20.63
4.50-4.99	7,284	920,591,776	39.42	46.95
5.00-5.49	1,180	89,922,473	6.39	4.59
5.50-5.99	1,629	97,166,192	8.82	4.96
6.00-6.49	460	34,066,475	2.49	1.74
6.50-6.99	557	25,497,495	3.01	1.30
7.00-7.49	200	6,058,687	1.08	0.31
7.50-7.99	183	3,027,312	0.99	0.15
8.00-8.99	62	1,164,518	0.34	0.06
9.00-9.49	3	24,139	0.02	0.00
9.50-12.00	1	3,695	0.01	0.00
TOTAL	18,476	\$1,960,621,777⁽³⁾	100.00 %⁽³⁾	100.00 %⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have passed with no payment received by the last business day of the month in which the second payment was due are considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time

bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

THDA, through Volunteer Mortgage Loan Servicing, manages delinquencies by working with borrowers in an attempt to avoid defaults and by communicating directly with borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

Delinquencies and Foreclosures as of March 31, 2019

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.81%, based on a total of 18,476 Program Loans as of March 31, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2019, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2019

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	287	\$ 28,828,398	1.83%	1.01% ⁽⁴⁾
VA Guaranteed	2	155,642	0.52	0.69
Privately Insured	26	2,034,490	3.96	0.63 ⁽⁵⁾
USDA/RD Guaranteed.....	16	990,600	1.60	⁽⁶⁾
Uninsured.....	4	320,540	0.55	⁽⁶⁾
TOTAL	<u>335</u>	<u>\$ 32,329,669 ⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.09%, based on a total of 18,476 Program Loans as of March 31, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2019, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	670	\$ 66,301,938	4.27 %	1.40 % ⁽⁴⁾
VA Guaranteed	10	956,378	2.61	1.11
Privately Insured	27	2,268,310	4.12	0.88 ⁽⁵⁾
USDA/RD Guaranteed.....	30	2,091,767	2.99	(6)
Uninsured.....	19	1,229,185	2.59	(6)
TOTAL	756	\$ 72,847,577 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.20%, based on a total of 18,476 Program Loans as of March 31, 2019 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2019 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2019, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	29	\$ 2,483,381	0.18 %	0.44 % ⁽⁴⁾
VA Guaranteed	1	26,788	0.26	0.70
Privately Insured	3	363,121	0.46	0.34 ⁽⁵⁾
USDA/RD Guaranteed.....	3	169,886	0.30	(6)
Uninsured.....	1	74,107	0.14	(6)
TOTAL	37	\$ 3,117,283 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS

General

As of March 31, 2019, the Transferred Program Loans have an approximate weighted average maturity of 232 months and a weighted average interest rate of 5.45% per annum. Average prepayment rate information for the Transferred Program Loans is discussed in “DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS – Prepayment Experience of Transferred Program Loans” below. The Transferred Program Loans initially were financed with proceeds of Issue 2010-A1 Bonds, which Issue 2010-A1 Bonds will be redeemed with proceeds of the Issue 2019-2 Bonds. It is anticipated that the characteristics of the pool of Transferred Program Loans will be substantially similar to the loans described below (such information below is as of March 31, 2019 (unaudited); the Transferred Program Loans will not be allocable to the Offered Bonds until June 27, 2019, and Transferred Program Loan characteristics may change from March 31, 2019, to June 27, 2019).

Transferred Program Loans by Loan Type

<u>Type of Mortgage</u>	<u>Number</u>	<u>Principal Amount⁽³⁾</u>	<u>% of Transferred Principal Amount</u>
FHA Insured	225	\$ 15,269,702	89.28%
VA Guaranteed	3	140,685	0.82
Privately Insured ⁽¹⁾	1	24,943	0.15
USDA/RD Guaranteed	26	1,386,126	8.10
Uninsured ⁽²⁾	5	282,382	1.65
TOTAL	260	\$ 17,103,838⁽⁴⁾	100.00%

(1) This includes Program Loans for which private mortgage insurance was in place at the time of the closing of the respective Program Loan.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Transferred Program Loans

Each private mortgage insurer insuring conventional, privately insured THDA Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least ‘AA’ by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured THDA Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least ‘AA’ by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

Prepayment Experience of Transferred Program Loans

The Transferred Program Loans are composed of mortgage loans originally allocable to the Issue 2010-A1 Bonds. The table set forth below lists the actual average prepayment rate (principal only) experience as a percentage of the PSA Prepayment Model of the mortgage loans allocable to the Issue 2010-A1 Bonds for the 3 month, 6 month and 12 month periods ended on March 31, 2019, based on principal prepayment data available to THDA.

<u>Issue</u>	<u>3 Months</u>	<u>6 Months</u>	<u>12 Months</u>	<u>Since Inception</u>	<u>Weighted Average Interest Rate</u>
2010-A1	179%	214%	243%	278%	5.45%

Delinquency Information for the Transferred Program Loans

The overall delinquency rate for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.92%, based on a total of 260 Transferred Program Loans as of March 31, 2019 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending March 31, 2019, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	4	\$ 301,954	1.78 %	1.01 % ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.69
Privately Insured	0	0	0.00	0.63 ⁽⁵⁾
USDA/RD Guaranteed.....	1	44,920	3.85	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	5	\$ 346,873 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall delinquency rate for the Transferred Program Loans that were ninety (90) days past due was 6.54%, based on a total of 260 Transferred Program Loans as of March 31, 2019 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were ninety (90) days past due as of March 31, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending March 31, 2019, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	15	\$ 997,297	6.67 %	1.40 % ⁽⁴⁾
VA Guaranteed	0	0	0.00	1.11
Privately Insured	0	0	0.00	0.88 ⁽⁵⁾
USDA/RD Guaranteed.....	2	140,032	7.69	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	17	\$ 1,137,330 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Transferred Program Loans in foreclosure was 1.54%, based on a total of 260 Transferred Program Loans as of March 31, 2019 (unaudited).

The foreclosure rate by loan type for the Transferred Program Loans in foreclosure as of March 31, 2019 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA, by loan type, for the quarter ending March 31, 2019, are shown in the following table:

IN FORECLOSURE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	4	\$ 212,895	1.78 %	0.44 % ⁽⁴⁾
VA Guaranteed	0	0	0.00	0.70
Privately Insured	0	0	0.00	0.34 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0.00	⁽⁶⁾
Uninsured.....	0	0	0.00	⁽⁶⁾
TOTAL	4	\$ 212,895 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the five most recent years and for the six months ended December 31, 2018, and December 31, 2017. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2018, 2017, 2016, 2015, and 2014, and from unaudited financial information of THDA for the three months ended December 31, 2018, and December 31, 2017.

	Six Months Ended December 31 (Unaudited)		Year Ended June 30 (Audited)				
Residential Finance Bond Group	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES:							
Interest on Mortgages	\$ 38,268	\$ 29,492	\$ 62,297	\$ 49,298	\$ 36,426	\$ 25,393	\$ 13,518
Investment Income:							
Interest	2,135	1,409	3,152	1,617	2,011	1,866	335
Net Increase (decrease) in the Fair Value of Investments	1,736	(648)	(1,736)	(792)	(320)	(552)	(146)
Fees and Other Income	<u>86</u>	<u>822</u>	<u>724</u>	<u>853</u>	<u>953</u>	<u>160</u>	<u>-</u>
	42,225	31,075	64,437	50,976	39,070	26,867	13,707
EXPENSES:							
Interest	25,764	18,992	40,142	30,542	24,876	17,058	9,087
Issuance Cost	2,772	364	3,812	3,602	2,311	2,343	2,167
Mortgage Servicing Fees	415	2,277	4,748	3,857	2,967	2,048	980
Other	<u>839</u>	<u>534</u>	<u>1,254</u>	<u>970</u>	<u>1,157</u>	<u>1,001</u>	<u>239</u>
	29,790	22,167	49,956	38,971	31,311	22,450	12,473
Excess of Revenues over Expenses	12,435	8,908	14,481	12,005	7,759	4,417	1,234
Net Position at beginning of period	194,764	176,030	176,030	116,295	101,055	105,707	(68,279)
Other Transfers	<u>27,975</u>	<u>(2,408)</u>	<u>4,253</u>	<u>47,730</u>	<u>7,481</u>	<u>(9,069)</u>	<u>172,752</u>
Net Position at end of period	<u>\$ 235,174</u>	<u>\$ 182,530</u>	<u>\$ 194,764</u>	<u>\$ 176,030</u>	<u>\$ 116,295</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of April 30, 2019 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 122,874,218	\$ 52,729,068
Federal Home Loan Mortgage Corporation Notes	9,045,998	15,882,936
Fannie Mae Notes	32,528,250	10,069,865
Financing Corporation Bonds	2,172,298	0
TOTAL	<u>\$ 166,620,764</u>	<u>\$ 78,681,869</u>

As of April 30, 2019 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 4,698,051	\$ 34,217,432
Federal Home Loan Mortgage Corporation Notes	99,515	4,090,627
Fannie Mae Notes	0	8,858,804
TOTAL	<u>\$ 4,797,566</u>	<u>\$ 47,166,863</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2022.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of April 30, 2019 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$2,405,420,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors⁽¹⁾ are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Kim Grant Brown, Chairman	June 30, 2019	Owner, Grant & Company Collierville, TN
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Tre Hargett ⁽²⁾	January, 2021	Secretary of State
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
John Krenson	June 30, 2020	CEO, Operation Stand Down Nashville, TN
David H. Lillard, Jr. ⁽²⁾	January, 2021	State Treasurer
Stuart McWhorter ⁽²⁾	(3)	Commissioner, Department of Finance and Administration
Erin Merrick ⁽²⁾	(3)	Deputy Counsel to the Governor
Austin McMullen	June 30, 2019	Member, Bradley Arant Boult Cummings LLP Nashville
John K. Snodderly	June 30, 2019	Executive Director, LaFollette Housing Authority LaFollette
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Pieter J. van Vuuren	June 30, 2019	President & CEO, First National Bank of McMinnville McMinnville, TN
Justin Wilson ⁽²⁾	January, 2021	Comptroller of the Treasury
Daisy Fields	(4)	Gallatin, TN

(1) One Board of Directors position appointed by the Governor under T.C.A. Section 13-23-107(a) is vacant.

(2) Ex officio member.

(3) Serves at pleasure of the Governor.

(4) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 265 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Administration since 2018. THDA employee since 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Operating Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010). B.S., Middle Tennessee State University.

Trebia Johns – Director of Mortgage Loan Servicing since February, 2019. THDA employee since 2016. Formerly, Ingram Industries, Nashville, Tennessee (2016); Green Tree Servicing, Goodlettsville, TN (1991-2015).

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Conners & Berry (currently Bradley Arant Boulton Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999); Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the "State") amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

Additionally, as of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ended June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees. Information about TCRS is available on the Tennessee Department of Treasury website at www.treasury.tn.gov/tcrs.

The TCRS covers three (3) large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 59,573 active members in TCRS in the state and higher education employee group at June 30, 2018. This total includes 265 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation for the defined benefit plan or contributions to a defined contribution plan.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age sixty (60) or thirty (30) years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute 5% of salary to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee

opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with an overall 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The defined benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age sixty-five (65) or the rule of ninety (90) (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities. Effective July 1, 2018, all future stabilization reserve contributions are held in a separate trust outside of TCRS for the benefit of each employer that participates in the stabilization reserve trust. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan, requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for the Defined Benefit Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute to TCRS at the rates shown below based on salary. General state employees do not contribute to this plan.

Legacy Retirement Plan

Actuary Study performed as of date	6/30/2017	6/30/2018
Contribution Period	7/1/18-6/30/19	7/1/19-6/30/20
General State Employee	19.23%	19.66%
Public Safety Officer	22.72%	23.34%
Judicial Employee	25.55%	25.55%
Consolidated State Employee Rate	19.36%	19.80%

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2018 (measurement date of June 30, 2017), the net pension liability for the state and higher education employee group based on the market value of assets was \$1.79 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 88.88%.

Actuarial Data for the Defined Benefit Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, an actuarial valuation is performed to determine the total employer contribution rate as well as the actuarially determined contribution (ADC) and the stabilization reserve rate shown below. General state employees contribute 5% to this plan.

Hybrid Retirement Plan

Actuary Study performed as of date	6/30/2017	6/30/2018
Contribution Period	7/1/18-6/30/19	7/1/19-6/30/20
General State Employee		
Actuarially Determined Contribution Rate (ADC)	1.66%	1.73%
Stabilization Reserve Trust Rate (SRT)	2.29%	2.23%
Total General State Employee Rate	3.95%	3.96%
Public Safety Officer	4.80%	4.80%
Judicial Employee	7.31%	7.31%
Consolidated State Employee Rate	4.00%	4.00%

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2018 (measurement date of June 30, 2017), the net pension asset for the state and higher education employee group based on the market value of assets was \$20.7 million, resulting in a plan fiduciary net position as a percentage of total pension liability of 131.51%.

THDA Employer Contributions for Pensions (Defined Benefit and Defined Contribution Plan)

For THDA, the employer contribution rate for employees hired before July 1, 2014, stated as a percentage of salary, is as follows: 19.23% and 19.66% for the period July 1, 2018 through June 30, 2019 and for the period July 1, 2019 through June 30, 2020, respectively. For employees first hired after June 30, 2014, the employer rate is 8.95% for the period July 1, 2018 through June 30, 2019 and 8.96% for the period July 1, 2019 through June 30, 2020 (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions for the pension plans are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	THDA Employer Contributions to DC (Open Plan)	Percentage of THDA Budget
2019 ⁽¹⁾	19.23/9.00% ⁽²⁾	\$ 18,751,300 ⁽¹⁾	\$ 2,450,935 ⁽¹⁾	\$ 267,556	2.45% ⁽¹⁾
2018	18.87/9.00% ⁽²⁾	14,498,364	1,945,832	262,903	1.97
2017	15.02/9.00 ⁽²⁾	13,396,776 ⁽³⁾	1,577,092	183,030	1.53
2016	15.03/9.00 ⁽²⁾	11,965,554	1,581,407	100,999	1.38
2015	15.02/9.00 ⁽²⁾	11,569,902	1,673,881	28,731	1.21
2014	15.03	11,721,300	1,761,711		1.19
2013	15.03	11,315,872	1,692,847		1.26
2012	14.91	11,005,204	1,632,095		1.36
2011	14.91	10,593,944	1,585,654		1.25
2010	13.02	9,956,646	1,295,272		1.03

(1) Estimated; final amount anticipated to be lower due to unfilled positions, staff turnover and salaries at less than the maximum permitted.

(2) Varies depending on plan the employee is enrolled in.

(3) The increase in "Total Salary of THDA Employees" from the actual amount for the fiscal year ended June 30, 2017, to the actual amount for the fiscal years ended June 30, 2018, and June 30, 2019, is due to the additional salaries for approximately forty-five (45) positions THDA has filled and an additional eight (8) positions THDA expects to fill in connection with the servicing activities THDA is undertaking through Volunteer Mortgage Loan Servicing.

For the fiscal year ended June 30, 2018, the salary of THDA employees totaled \$14,498,364, which represents 0.48% of the \$3.0 billion of salary for all state and higher education employees in TCRS.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

General Information about the 401(k) and 457 Defined Contribution Plans

The state provides additional voluntary defined contribution plans to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Employee contribution limits to the 401(k) and 457 plans are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA. The THDA contribution for the fiscal year ended June 30, 2018 was \$75,204.37.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 74 and 75) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2017, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used an entry age normal actuarial cost method, indicates that for the fiscal year ended June 30, 2018, the total unfunded actuarial liability of THDA is \$3,577,602 and the fiscal year 2018 OPEB expense for THDA is \$274,165. The current OPEB report for the Employee Group OPEB Plan may be reviewed at <https://www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-opeb.html>. The State did not pre-fund any actuarially determined OPEB liability, and continued to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for fiscal year ended June 30, 2018. The State charged THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that interest on the Issue 2019-2 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals under the alternative minimum tax provisions of the Code.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a "Premium Bond") over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or otherwise prevent beneficial owners of the Issue 2019-2 Bonds from realizing the full current benefit of the tax status of such interest, or adversely affect the market value of the Issue 2019-2 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Issue 2019-2 Bonds. Purchasers of the Issue 2019-2 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The

opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Issue 2019-2 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation, regulatory initiatives or litigation.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

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

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 as promulgated on the issue date of the Issue 2019-2 Bonds by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Rule"), THDA, in

the Issue 2019-2 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2019-2 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MRSB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material; (xv) incurrence of a financial obligation of THDA, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of THDA, any of which affect bondholders, if material; and (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of THDA, any of which reflect financial difficulties.

For the purposes of the events identified in clauses (xv) and (xvi) above, the term "financial obligation" means: (A) a debt obligation; (B) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) a guarantee of (A) or (B). The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2019-2 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2019-2 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the

effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2019-2 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2019-2 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MRSB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2018, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the six months ended December 31, 2018. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

Citigroup Global Markets Inc., Raymond James & Associates, Inc., RBC Capital Markets, LLC, J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and Wiley Brothers—Aintree Capital, LLC (collectively, the "Underwriters") have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$1,161,298.10. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective

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

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Offered Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Offered Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Offered Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Offered Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

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MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Kim Grant Brown

Chair

/s/ Ralph M. Perrey

Executive Director



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, the schedule of proportionate share of the collective total other postemployment benefit liability for the Closed State Employee Group OPEB Plan, and the schedule of proportionate share of the collective total other postemployment benefit liability for the Closed Tennessee OPEB Plan, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic

financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.

A handwritten signature in dark ink, appearing to read "Deborah Loveless", is positioned above the printed name and title.

Deborah V. Loveless, CPA, Director
Division of State Audit
December 11, 2018

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2018

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2018, with comparative information presented for the fiscal year ended June 30, 2017. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

Introduction – The Tennessee Housing Development Agency

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2018, THDA has originated over 120,400 single-family mortgage loans in its 45-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 70 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 385 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated*, Section 13-23-105). This board meets regularly on a bimonthly basis; however, some committees may meet more often as situations dictate.

Overview of the Financial Statements

The basic financial statements include statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows, as well as notes to the financial statements. The statement of net position provides financial information on the overall financial position of THDA at each year end. The statement of revenues, expenses, and changes in net position summarizes the results of operations over the course of each fiscal year. The statement of cash flows provides relevant information about THDA's cash receipts and cash payments during each fiscal year.

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discretely presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <https://www.tn.gov/finance/fa/fa-accounting-financial/fa-acffin-cafr.html>.

During fiscal year 2018, THDA implemented accounting standard GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The Statement establishes new accounting and financial reporting procedures for postemployment benefits other than pensions. Implementation of this Statement resulted in a revision of THDA's Net Position as of July 1, 2017, which has been reported as a Prior Period Adjustment.

Financial Highlights

Year Ended June 30, 2018

- Total assets increased by \$164.7 million, or 6.4%.
- Total liabilities increased by \$164.8 million, or 8.0%.
- Net position was \$509.9 million. This is an increase of \$1.7 million, or 0.34%, from fiscal year 2017 net position (as adjusted).
- Cash and cash equivalents decreased by \$86.2 million, or 23.4%.
- Total investments increased by \$54.1 million, or 26.2%.
- Bonds payable increased by \$148.3 million, or 7.5%.
- THDA originated \$463.4 million in new loans, which is an increase of \$137.6 million, or 42.2%, from the prior year.

Financial Analysis of the Agency

Net Position – The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	2018	2017
Current assets	\$ 406,809	\$ 427,265
Capital assets	2,876	1,809
Other noncurrent assets	2,330,505	2,146,413
Total assets	2,740,190	2,575,487
Deferred outflows of resources	4,609	4,726
Current liabilities	170,949	185,772
Noncurrent liabilities	2,063,595	1,883,961
Total liabilities	2,234,544	2,069,733
Deferred inflows of resources	365	514
Invested in capital assets	2,876	1,809
Restricted net position	438,516	430,633
Unrestricted net position	68,498	77,524
Total net position	\$ 509,890	\$ 509,966

2018 to 2017

First and second mortgage loans receivable (net of allowance for forgivable second mortgages) increased by \$188.5 million. During fiscal year 2018, single-family mortgage loan originations increased by \$137.6 million, whereas mortgage loan payoffs increased by \$20.6 million and mortgage loan repayments increased \$3.6 million. In addition, THDA recognized an allowance for future uncollectable forgivable second mortgages of \$14.0 million for fiscal year 2018.

Total liabilities increased \$164.8 million. The increase is primarily due to a \$148.3 million increase of bonds payable at June 30, 2018, as compared to June 30, 2017.

Changes in Net Position – The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	2018	2017
Operating revenues		
Mortgage interest income	\$ 90,105	\$ 87,963
Investment income	2,738	1,743
Other	20,482	18,546
Total operating revenues	113,325	108,252
Operating expenses		
Interest expense	58,239	56,892
Other	45,368	41,980
Total operating expenses	103,607	98,872
Operating income	9,718	9,380
Nonoperating revenues (expenses)		
Grant revenues	317,326	277,877
Grant expenses	(325,340)	(288,223)
Total nonoperating revenues (expenses)	(8,014)	(10,346)
Change in net position	\$ 1,704	\$ (966)

2018 to 2017

Total operating revenues increased \$5.1 million, primarily due to an increase in mortgage interest income of \$2.1 million and federal grant administration fees of \$1.5 million. During fiscal year 2018, certain long-term investments with high interest yields matured, which were re-invested into other investments having contemporary investment yields. In addition, fair value of investments decreased by \$4.2 million in fiscal year 2018.

Total operating expenses increased \$4.7 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate, and an increase in salary and benefits expense.

Nonoperating grant revenues increased \$39.5 million and nonoperating grant expenses increased \$37.1 million. The increases are due to the first full year of implementation of the down payment assistance program during fiscal year 2018.

Debt Activity – Bonds outstanding at June 30 were as follows (expressed in thousands):

	2018	2017
Bonds payable	\$2,128,712	\$1,980,456

Year Ended June 30, 2018

Total bonds payable increased \$148.3 million, which is deemed an insignificant year-over-year variance primarily attributable to an increase in mortgage loan production. During the fiscal year, THDA issued debt totaling \$459.7 million, with activity arising from four bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$34.6 million of outstanding bonds into new bond originations with lower interest rates. In addition to the nominal tax-exempt mortgage revenue bonds issued, THDA also issued one taxable bond issue in fiscal year 2017 primarily for economic refunding opportunities.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard and Poor's (S&P), a division of The McGraw-Hill Companies, Inc., has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

Debt Limits

In accordance with *Tennessee Code Annotated*, Section 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

Grant Programs

During fiscal year 2007 through fiscal year 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors allocated additional THDA funds for grants. These funds established a grant program that was titled by THDA the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

	2018	2017	2016 and Prior	Total
Funding Sources:				
THDA	\$7,500,000	\$7,500,000	\$67,300,000	\$82,300,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	\$7,500,000	\$7,500,000	\$71,650,000	\$86,650,000
Approved Uses:				
Rural repair program (USDA)	\$ -	\$ -	\$ 6,300,000	\$ 6,300,000
Ramp Programs & Hsg Modification	300,000	300,000	1,350,000	1,950,000
Emergency Repairs	2,700,000	2,700,000	18,500,000	23,900,000
Competitive Grants	3,500,000	3,500,000	37,600,000	44,600,000
Rebuild & Recover	500,000	500,000	3,300,000	4,300,000
Other Grants	500,000	500,000	4,600,000	5,600,000
Totals	\$7,500,000	\$7,500,000	\$71,650,000	\$86,650,000

Current Mortgage Products and Environment

THDA offers a variety of mortgage loan products to address the needs of Tennesseans across the State. The Great Choice loan program offers THDA the opportunity to offer a more competitive interest rate on its 30-year fixed rate mortgage product while still offering down payment assistance with the addition of the Great Choice Plus loan program, which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the Great Choice Plus loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15. Subsequently, in October of 2016, the Great Choice Loan product was revised to feature a 30-year forgiveness requirement, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced or otherwise paid in full within the first 30 years of closing.

A special interest rate reduction on the Great Choice loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as “Homeownership for the Brave,” provides a 0.5% rate reduction on the current interest rate for Great Choice loans. In addition to the rate reduction, Homeownership for the Brave applicants are eligible for optional down payment and closing cost assistance through the Great Choice Plus second mortgage loan at a 0% interest rate.

All first mortgage loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages, interest-only mortgages, “buy-down” loans, mortgages with a future lump-sum payment due (balloon-type mortgages), or with other similar mortgage terms. THDA does not make or purchase “sub-prime” mortgage loans.

Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by S&P. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have LTV ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's Internet site at <https://thda.org/homebuyers/homebuyers>.

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2018, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principal Amount Outstanding	Percentage ¹
60 – 89 Days Past Due	24,287	513	\$ 43,223,463	2.11%
90+ Days Past Due	24,287	1,200	95,172,207	4.94%
In Foreclosure	24,287	187	13,686,607	0.77%

Economic Factors

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a benchmark, THDA uses the one-, three- and five-year Constant Maturity Treasury rates as established by the United States Treasury.

¹ Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

The continuation of relatively low interest rates from a historic perspective increases the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

Direct Loan Servicing

During FY 2017, THDA commenced the direct servicing of mortgage loans under the name of Volunteer Mortgage Loan Servicing ("VMLS"). On November 1, 2016, the servicing of approximately 1,800 THDA mortgage loans having an outstanding principal balance of \$91.5 million was transferred to VMLS from an existing THDA mortgage servicer. In FY 2018, THDA began directly servicing the flow-business of new mortgage loans.

Contacting THDA's Financial Management

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report or need additional financial information, contact Trent Ridley, Chief Financial Officer, at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2018
(Expressed in Thousands)

ASSETS

Current assets:		
Cash and cash equivalents (Note 2)	\$	216,191
Investments (Note 2)		83,879
Receivables:		
Accounts		839
Interest		11,155
First mortgage loans		59,768
Due from federal government		<u>34,977</u>
Total current assets		<u>406,809</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		66,553
Investments (Note 2)		127,812
Investment interest receivable		790
Investments (Note 2)		48,595
First mortgage loans receivable		2,058,402
Second mortgage loans receivable		38,108
Allowance for uncollectable second mortgages		(14,031)
Unearned service release premiums		1,106
Advance to local government		3,135
Net pension asset (Note 5)		35
Capital assets:		
Furniture and equipment		5,108
Less accumulated depreciation		<u>(2,232)</u>
Total noncurrent assets		<u>2,333,381</u>
Total assets		<u>2,740,190</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refundings	441
Deferred outflows related to pensions (Note 5)	3,931
Deferred outflows related to OPEB (Note 9)	<u>237</u>
Total deferred outflows of resources	<u>4,609</u>

LIABILITIES

Current liabilities:	
Accounts payable	15,875
Accrued payroll and related liabilities	680
Compensated absences	736
Due to primary government	91
Interest payable	32,181
Escrow deposits	2,719
Prepayments on mortgage loans	1,205
Due to federal government	29,517
Bonds payable (Note 3)	<u>87,945</u>
Total current liabilities	<u>170,949</u>
Noncurrent liabilities:	
Bonds payable (Note 3)	2,040,767
Compensated absences	630
Net pension liability (Note 5)	7,659
Net OPEB liability (Note 9)	3,578
Escrow deposits	10,596
Arbitrage rebate payable	<u>365</u>
Total noncurrent liabilities	<u>2,063,595</u>
Total liabilities	<u>2,234,544</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 5)	228
Deferred inflows related to OPEB (Note 9)	<u>137</u>
Total deferred inflows of resources	<u>365</u>

NET POSITION

Net investment in capital assets	2,876
Restricted for single family bond programs (Note 4 and Note 7)	423,248
Restricted for grant programs (Note 4)	12,080
Restricted for Homebuyers Revolving Loan Program (Note 4)	3,153
Restricted for net pension asset (Note 5)	35
Unrestricted (Note 7)	<u>68,498</u>
Total net position	<u>\$ 509,890</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

OPERATING REVENUES

Mortgage interest income	\$ 90,105
Investment income:	
Interest	7,025
Net (decrease) in the fair value of investments	(4,287)
Federal grant administration fees	15,279
Fees and other income	5,203
Total operating revenues	<u>113,325</u>

OPERATING EXPENSES

Salaries and benefits	20,177
Contractual services	6,214
Materials and supplies	1,436
Rentals and insurance	12
Other administrative expenses	836
Other program expenses	5,572
Interest expense	58,239
Mortgage service fees	6,833
Issuance costs	3,812
Depreciation	476
Total operating expenses	<u>103,607</u>
Operating income	<u>9,718</u>

NONOPERATING REVENUES (EXPENSES)

Federal grants revenue	317,323
Other grants revenue	3
Federal grants expenses	(317,388)
Local grants expenses	(7,952)
Total nonoperating revenues (expenses)	<u>(8,014)</u>
Change in net position	<u>1,704</u>
Total net position, July 1	509,966
Cumulative effect of a change in accounting principle (Note 12)	(1,780)
Total net position, July 1, as restated	508,186
Total net position, June 30	<u>\$ 509,890</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 373,400
Receipts from federal government	15,030
Receipts from other funds	2,740
Other miscellaneous receipts	5,203
Acquisition of mortgage loans	(463,417)
Payments to service mortgages	(7,939)
Payments to suppliers	(16,471)
Payments to federal government	(1,490)
Payments to other funds	(2,740)
Payments to or for employees	(20,844)
Net cash used by operating activities	(116,528)
Cash flows from non-capital financing activities:	
Operating grants received	314,000
Proceeds from sale of bonds	469,989
Operating grants paid	(319,857)
Call premium paid	(14)
Cost of issuance paid	(3,812)
Principal payments	(314,725)
Interest paid	(62,486)
Net cash provided by non-capital financing activities	83,095
Cash flows from capital and related financing activities:	
Purchases of capital assets	(1,542)
Net cash used by capital and related financing activities	(1,542)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	203,470
Purchases of investments	(262,517)
Investment interest received	7,151
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	693
Net cash used by investing activities	(51,203)
Net decrease in cash and cash equivalents	(86,178)
Cash and cash equivalents, July 1	368,922
Cash and cash equivalents, June 30	\$ 282,744

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

Reconciliation of operating income to net cash used by operating activities:	
Operating income	\$ <u>9,718</u>
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	476
Changes in assets and liabilities:	
Decrease in accounts receivable	154
Decrease in mortgage interest receivable	341
(Increase) in pension asset	(2)
(Increase) in deferred pension outflows	(67)
Decrease in deferred OPEB outflows	4
(Increase) in mortgage loans receivable	(188,470)
(Increase) in due from federal government	(249)
Increase in accounts payable	4,883
(Decrease) in unearned service release premiums	(1,106)
Increase in accrued payroll / compensated absences	100
(Decrease) in due to primary government	(632)
(Decrease) in arbitrage rebate liability	(745)
Increase in pension liability	7
(Decrease) in OPEB liability	(104)
(Decrease) in deferred pension inflows	(286)
Increase in deferred OPEB inflows	137
Investment income included as operating revenue	(2,738)
Interest expense included as operating expense	58,239
Issuance cost included as operating expense	<u>3,812</u>
Total adjustments	<u>(126,246)</u>
Net cash used by operating activities	\$ <u><u>(116,528)</u></u>
Noncash investing, capital, and financing activities:	
(Decrease) in fair value of investments	\$ <u>(4,821)</u>
Total noncash investing, capital, and financing activities	\$ <u><u>(4,821)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Notes to the Financial Statements
June 30, 2018

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee Housing Development Agency (THDA) was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as ex officio board members of the agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and Title 24, *Code of Federal Regulations*, Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

THDA is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds

Notes to the Financial Statements (Continued)

and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, the Tax and Insurance Holding/Escrow account, Funds on deposit for, or on behalf of, borrower's related to Loan Servicing, Hardest Hit Fund cash, and Net Pension Assets (see note 4).

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

The Tax and Insurance Holding/Escrow account is used to service mortgage accounts. These funds are tax and insurance escrows held on behalf of various mortgagors from payments collected on mortgages. The agency is obligated to expend these monies on escrowed items. The Payment Clearing and Disbursement accounts are also used to service mortgages.

Deferred Amount on Refundings and Bond Premiums and Discounts

Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.

Notes to the Financial Statements (Continued)

Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

Mortgages

Mortgages are carried at their original amount less collected principal.

Loan Servicing

On November 1, 2016, THDA began servicing the mortgage loans previously serviced by an approved THDA Loan Servicer and in May of 2017 began servicing the loans originated from THDA's Originating Agents.

Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds.

Notes to the Financial Statements (Continued)

outstanding. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Allowance for Forgivable Second Mortgages

THDA has offered the Down Payment Assistance product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period. During fiscal year 2018, the agency determined that an amount of second mortgage down payment assistance loans are not expected to be recovered due to forgiveness or foreclosure. This amount was recorded as an allowance.

Beginning in April 2017 this product changed to 100% forgivable second mortgage loan for the 30-year term of the first mortgage. It is 100% repayable in the event the home is sold, refinanced or owners move out of the home. Because of the likelihood that the majority of second mortgage loans will be repaid in the course of the 30-year term, the allowance account established for the second mortgage loans beginning October 2014 will not be used for any second mortgages made after March 2017.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Note 2. Deposits and Investments

Deposits

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

Notes to the Financial Statements (Continued)

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2018, the bank balance was \$ 32,468,510. This amount includes \$2,840,941; which is held in a T&I Escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf. All bank balances at June 30, 2018, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2018, \$28,695,048 was in the BNYM. Of this amount, \$28,445,048 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the State of Tennessee Treasurer's Report. That report is available on the state's website at www.treasury.state.tn.us.

Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk – Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Notes to the Financial Statements (Continued)

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

June 30, 2018		
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$167,711,320	2.878
U.S. Treasury Coupon	12,969,783	2.704
U.S. Agency Discount	187,487,134	0.133
Total	\$368,168,237	1.474

Fair Value Measurements – THDA implemented GASB Statement 72, *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2018, (expressed in thousands):

June 30, 2018				
Assets by Fair Value Level	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Agency Coupon	\$167,711	\$ -	\$167,711	\$ -
U.S. Treasury Coupon	12,970	12,970	-	-
U.S. Agency Discount	187,487	-	187,487	-
Total debt securities	\$368,168	\$12,970	355,198	\$ -

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets as those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets as those securities. Level 3 valuations are derived from valuation techniques in which significant inputs are unobservable.

Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to the Investments section of Note 1 for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2018, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

Notes to the Financial Statements (Continued)

June 30, 2018					
Investment Type	Fair Value	U.S. Treasury ¹	AAA	AA+	Not Rated ²
U.S. Agency Coupon	\$167,711,320	\$ -	\$14,412,390	\$151,034,949	\$ 2,263,981
U.S. Treasury Coupon	12,969,783	12,969,783	-	-	-
U.S. Agency Discount	187,487,134	-	30,000,000	-	157,487,134
Total	\$368,168,237	\$12,969,783	\$44,412,390	\$151,034,949	\$159,751,115

In addition to these investments, the agency has \$136,991,170 invested in a money market fund. This fund is measured at amortized cost and has a Standard and Poor's rating of AAA.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

June 30, 2018		
Issuer	<u>Fair Value</u> <u>(Thousands)</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$217,505	59.08
Federal Home Loan Mortgage Corp.	\$81,487	22.13
Federal National Mortgage Assoc.	\$53,951	14.65

GASB 79 Disclosures – During fiscal year 2016, THDA implemented GASB Statement 79, *Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that THDA participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost.

Note 3. Liabilities

Bonds Issued and Outstanding

Homeownership Program Bonds				
Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2018 (Thousands)
2007-4	1/1/2009 – 7/1/2038	\$ 150,000	3.75 to 5.50	\$ -
2008-1	7/1/2009 – 1/1/2039	60,000	2.45 to 5.70	-
2009-1	1/1/2010 – 7/1/2029	50,000	0.75 to 5.00	13,255
2009-2	7/1/2010 – 7/1/2030	75,000	0.90 to 5.00	17,480
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50	33,435
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65	52,185

¹ This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

² This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

Notes to the Financial Statements (Continued)

2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50	59,395
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00	45,710

Total Homeownership Program Bonds	\$827,690	\$ 221,460
Plus: Unamortized Bond Premiums		1,928
Net Homeownership Program Bonds		<u>\$223,388</u>

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2018 (Thousands)
2009-A	1/1/2011 – 1/1/2040	\$100,000	0.90 to 4.625	\$ 8,445
2010-A	1/1/2011 – 7/1/2041	160,000	0.60 to 5.00	11,965
2010-B	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	40,580
2011-A	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	12,275
2011-B	7/1/2012 – 7/1/2041	100,000	0.25 to 4.50	46,020
2011-C	7/1/2012 – 7/1/2041	100,000	0.40 to 4.30	42,015
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	99,090

Total Housing Finance Program Bonds	\$810,000	\$260,390
Plus: Unamortized Bond Premiums		2,756
Net Housing Finance Program Bonds		<u>\$263,146</u>

Residential Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2018 (Thousands)
2013-1	1/1/2014 – 7/1/2043	\$ 215,905	0.40 to 4.00	\$ 98,530
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	67,335
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	89,825
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	106,210
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	117,920
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	142,270
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	109,900
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	113,680
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	44,045
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	94,125
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	164,465
2017-3	7/1/2018 – 1/1/2048	99,900	0.80 to 3.65	99,070
2017-4	7/1/2018 – 7/1/2048	99,900	0.95 to 4.00	99,900
2018-1	1/1/2019 – 1/1/2043	99,900	1.40 to 4.00	99,900
2018-2	1/1/2019 – 1/1/2049	160,000	1.75 to 4.00	160,000

Total Residential Finance Program Bonds	\$2,008,905	\$1,607,175
Plus: Unamortized Bond Premiums		35,037
Subtract: Unamortized Bond Discount		(34)
Net Residential Finance Program Bonds		<u>\$1,642,178</u>

Net Total All Bonds		<u>\$2,128,712</u>

Notes to the Financial Statements (Continued)

Housing Finance Program Bonds – The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

Debt Service Requirements

Debt service requirements to maturity at June 30, 2018, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2019	\$ 45,460	\$ 67,559	\$ 113,019
2020	78,775	69,483	148,258
2021	85,160	67,472	152,632
2022	81,740	65,162	146,902
2023	78,190	62,888	141,078
2024 – 2028	390,215	277,914	668,129
2029 – 2033	393,280	212,378	605,658
2034 – 2038	410,000	140,523	550,523
2039 – 2043	359,090	66,736	425,826
2044 - 2048	157,285	15,398	172,683
2049	9,830	273	10,103
Total	<u>\$2,089,025</u>	<u>\$1,045,786</u>	<u>\$3,134,811</u>

Notes to the Financial Statements (Continued)

Redemption of Bonds and Notes

During the year ended June 30, 2018, bonds were retired at par before maturity in the Homeownership Program in the amount of \$62,025,000, in the Housing Finance Program in the amount of \$55,915,000, and in the Residential Finance Program in the amount of \$144,045,000. The respective carrying values of the bonds were \$62,672,676, \$56,543,851 and \$148,217,359. This resulted in revenue to the Homeownership Program of \$647,676, to the Housing Finance Program of \$628,851, and to the Residential Finance Program of \$4,172,359.

On June 27, 2017, the agency issued \$175,000,000 in Residential Finance Program Bonds, Issue 2017-2. On July 1, 2017, the agency used \$23,110,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$23,110,000 early redemption). The carrying amount of these bonds was \$23,217,325. The refunding increased the agency's debt service by \$7,948,844 over the next 20.50 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$848,929.

On September 28, 2017, the agency issued \$99,900,000 in Residential Finance Program Bonds, Issue 2017-3

On December 19, 2017, the agency issued \$99,900,000 in Residential Finance Program Bonds, Issue 2017-4. On January 1, 2018, the agency used \$11,460,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$11,460,000 early redemption). The carrying amount of these bonds was \$11,460,000. The refunding reduced the agency's debt service by \$4,972,339 over the next 16 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$2,364,905.

On March 29, 2018, the agency issued \$99,900,000 in Residential Finance Program Bonds, Issue 2018-1.

On June 12, 2018, the agency issued \$160,000,000 in Residential Finance Program Bonds, Issue 2018-2.

Notes to the Financial Statements (Continued)

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2018 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2017	Additions	Reductions	Ending Balance June 30, 2018	Amounts Due Within One Year ³
Bonds Payable	\$1,944,050	\$459,700	(\$314,725)	\$2,089,025	\$87,945,
Plus: Unamortized Bond Premiums	36,406	10,317	(7,002)	39,721	-
Less: Unamortized Bond Discounts	-	(35)	1	(34)	-
Compensated Absences	1,314	69	(17)	1,366	736
Net Pension Liability	7,652	1,549	(1,542)	7,659	-
Total OPEB Liability	1,661	3,976	(2,059)	3,578	-
Escrow Deposits	5,391	78,563	(70,639)	13,315	2,719
Arbitrage Rebate Payable	1,110	-	(745)	365	-
Total	\$1,997,584	\$554,139	(\$396,728)	\$2,154,995	\$91,400

Note 4. Restricted Net Position

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

Note 5. Pension Plans

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with

³Amounts due within one year include management authorized bond refundings at June 30.

Notes to the Financial Statements (Continued)

pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.state.tn.us/tcrs.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. THDA employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer

Notes to the Financial Statements (Continued)

contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2018, to the Closed State and Higher Education Employee Pension Plan were \$1,891,406, which is 18.87 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2018, THDA reported a liability of \$7,659,371 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. THDA's proportion of the net pension liability was based on a projection of THDA's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, THDA's proportion was 0.427994 percent. The proportion measured as of June 30, 2016, was 0.419391 percent.

Pension expense – For the year ended June 30, 2018, THDA recognized a pension expense of \$1,584,150. Allocated pension expense was \$1,589,179 before being reduced by \$5,029 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, THDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 607	\$224
Net difference between projected and actual earnings on pension plan investments	28	-
Change in proportionate share of net asset or liability	20	-
Changes in assumptions	1,305	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2017	1,891	-
Total	\$3,851	\$224

Deferred outflows of resources, resulting from THDA's employer contributions of \$1,891,406 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Notes to the Financial Statements (Continued)

Year Ended June 30:	
2019	205,395
2020	1,269,075
2021	688,928
2022	(428,854)
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected six years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.5 percent decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the

Notes to the Financial Statements (Continued)

expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%.

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents THDA’s proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what THDA’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency’s proportionate share of the net pension liability	\$15,780,009	\$7,659,371	\$831,851

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Notes to the Financial Statements (Continued)

Payable to the Pension Plan

At June 30, 2018, THDA reported a payable of \$78,546 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2018.

State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description – State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under *Tennessee Code Annotated* Title 8, Chapters 34-37.

The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.state.tn.us/tcrs.

Benefits provided – *Tennessee Code Annotated* Title 8, Chapters 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation by 1.0 percent multiplied by member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher

Notes to the Financial Statements (Continued)

Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2018, to the State and Higher Education Employee Retirement Plan were \$56,893, which is 1.29 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2018, THDA reported an asset of \$35,422 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA's proportion of the net pension asset was based on a projection of THDA's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, THDA's proportion was 0.170803 percent. The proportion measured as of June 30, 2016, was 0.391715 percent.

Pension expense – For the year ended June 30, 2018, THDA recognized a pension expense of \$16,527. Allocated pension expense was \$14,375 before being increased by \$2,152 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1	\$1
Net difference between projected and actual earnings on pension plan investments	-	3
Changes in proportion of share of net asset or liability	19	-

Notes to the Financial Statements (Continued)

Changes in assumptions	3	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2017	57	-
Total	\$80	\$4

Deferred outflows of resources, resulting from THDA's employer contributions of \$56,593 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2019	2,058
2020	2,058
2021	1,989
2022	1,621
2023	2,388
Thereafter	9,677

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with generational mortality improvement.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.5 percent to 2.25 percent; and

Notes to the Financial Statements (Continued)

decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents THDA's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what THDA's proportionate share of the net pension asset

Notes to the Financial Statements (Continued)

would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency's proportionate share of the net pension asset	\$(4,430)	\$(35,422)	\$(58,537)

Payable to the Pension Plan

At June 30, 2018, THDA reported a payable of \$2,632 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2018 for both defined benefit pension plans was \$1,600,678.

Note 6. Deferred Compensation Plans

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code, Section 457, and the other pursuant to *Internal Revenue Code* (IRC), Section 401(k). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The THDA provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The THDA recognized a pension expense of \$338,108 for employer contributions.

Notes to the Financial Statements (Continued)

The THDA recognized a pension payable of \$15,339 for employer contributions

Note 7. Provisions for Mortgage Loan Losses

Most mortgage loans are insured by the Federal Housing Administration, an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

Note 8. Insurance-Related Activities

Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property; crime and fidelity coverage on the state's officials and employees; and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

Notes to the Financial Statements (Continued)

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2018, is presented in the *Tennessee Comprehensive Annual Financial Report (CAFR)*. The CAFR is available on the state's website at www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-cafr.html. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2018, the Risk Management Fund held \$189 million in cash designated for payment of claims.

Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 9. Other-Postemployment Benefits OPEB

Closed State Employee Group OPEB Plan

General information about the OPEB plan

Plan description - Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015 and choose coverage, are provided with pre-65 retiree health insurance benefits through the closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan includes the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee and the institutions that make up the State University and Community College System.

Notes to the Financial Statements (Continued)

Benefits provided - The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65 are enrolled in this plan. All members have the option of choosing between the partnership promise, no partnership promise, standard preferred provider organization (PPO) plan or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits, as active employees, at a blended premium rate that considers the cost of active employees. This creates an implicit subsidy for the retirees. The retirees cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. No subsidy is provided to retirees in the health savings CDHP plan. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*, establishes the required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates.

Total OPEB Liability

Proportionate share - The Tennessee Housing Development Agency's proportionate share of the collective total OPEB liability, related to the EGOP, was \$3.6 million. At the June 30, 2017, measurement date, the Tennessee Housing Development Agency's proportion of the collective total OPEB liability was 0.2664798%, representing the first-time presentation of the proportion. Tennessee Housing Development Agency's proportion of the collective total OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017 and measurement date of June 30, 2017.

Actuarial assumptions - The collective total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%

Notes to the Financial Statements (Continued)

Healthcare cost trend rates	7.5% for 2018, decreasing annually to an ultimate rate of 3.83% for 2050 and later years.

Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017 pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate - The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal General Obligation (GO) AA index.

Changes in assumptions - The discount rate was changed from 2.92% as of the beginning of the measurement period to 3.56% as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate - The following presents Tennessee Housing Development Agency proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56%) or 1-percentage-point higher (4.56%) than the current discount rate (expressed in thousands).

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Proportionate share of the collective total OPEB liability	\$ 3,826	\$ 3,578	\$ 3,345

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate - The following presents Tennessee Housing Development Agency proportionate share of the collective total OPEB liability of the EGOP, as well as what the

Notes to the Financial Statements (Continued)

proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (6.50% decreasing to 2.83%) or 1-percentage-point higher (8.50% decreasing to 4.83%) than the current healthcare cost trend rate.

	1% Decrease (6.50% decreasing to 2.83%)	Healthcare Cost Trend Rates (7.50% decreasing to 3.83%)	1% Increase (8.50% decreasing to 4.83%)
Proportionate share of the collective total OPEB liability	\$ 3,221	\$ 3,578	\$ 3,996

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense - For the fiscal year ended June, 30, 2018, the Tennessee Housing Development Agency recognized OPEB expense of \$274 thousand.

Deferred outflows of resources and deferred inflows of resources - For the fiscal year ended June, 30, 2018, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources (expressed in thousands):

	Deferred Outflows of resources	Deferred Inflows of resources
Differences between actual and expected experience	\$ -	\$ -
Changes of assumptions	-	137
Changes in proportion and differences between benefits paid and proportionate share of benefits paid.	-	-
Payments subsequent to the measurement date	237	
Total	<u>\$ 237</u>	<u>\$ 137</u>

Deferred outflows of resources, resulting from the Tennessee Housing Development Agency's employer payments of \$237 thousand subsequent to the measurement date, will be recognized as a decrease in total OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (expressed in thousands):

Notes to the Financial Statements (Continued)

For the year ended June 30:

2019	\$ (20)
2020	(20)
2021	(20)
2022	(20)
2023	(20)
Thereafter	(39)

In the tables above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

Closed Tennessee OPEB Plan

General information about the OPEB plan

Plan description – Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015 and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The State of Tennessee (primary government) as well as the Tennessee Student Assistance Corporations, the Tennessee Housing Development Agency, the University of Tennessee and the other institutions that make up the State University and Community College System also participates in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state administered Teacher Group Insurance and Local Government Insurance Plans.

Benefits provided - The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Title 8, Chapter 27, Parts 201, 301, and 701. *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare eligible and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost, however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25. Tennessee Housing Development Agency does not provide any subsidies for retirees in the TNP. The primary government paid \$7,976 thousand for OPEB as the benefits came due during

Notes to the Financial Statements (Continued)

the reporting period. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

In accordance with Title 8, Chapter 27, Parts 209, *Tennessee Code Annotated*, the state insurance committees established by Title 8, Chapter 27, Parts 201, 301, and 701 determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the TN OPEB liability associated with the Tennessee Housing Development Agency’s employees. The primary government’s proportionate share of the total OPEB liability associated with the Tennessee Housing Development Agency was \$339 thousand. At the June 30, 2017, measurement date, the proportion of the collective total OPEB liability associated with the Tennessee Housing Development Agency was 0.1909649%, representing the first-time presentation of this proportion. The proportion of the collective total OPEB associated with the Tennessee Development Housing Agency was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017 and a measurement date of June 30, 2017.

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	The premium subsidies provided to retirees in the Closed Tennessee OPEB Plan are assumed to remain unchanged for the entire projection; therefore trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017 pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants

Notes to the Financial Statements (Continued)

dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2 percent load for males and a -3 percent load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10 percent load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20 Year Municipal GO (General Obligation) AA index.

Changes in assumptions – The discount rate was changed from 2.92 percent as of the beginning of the measurement period to 3.56 percent as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary governments proportionate share of the Tennessee Housing Development Agency's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate. The Tennessee Housing Development Agency does not report a proportionate share of the OPEB liability for the employees in the TNP.

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Primary government's share of the collective total OPEB liability	\$ 383	\$ 339	\$ 300

OPEB expense – For the fiscal year ended June 30, 2018, the primary government recognized OPEB expense of \$15 thousand for employees of the Tennessee Housing Development Agency participating in the TNP.

Total OPEB Expense – The total OPEB expense for the year ended June 30, 2018 was \$289 thousand, which consisted of OPEB expense of \$274 thousand for the EGOP and \$15 thousand paid by the Tennessee Housing Development Agency for the TNP.

Note 10. On-Behalf Payments

During the year ended June 30, 2018, the State of Tennessee made payments of \$7,976 on behalf of THDA for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee

Notes to the Financial Statements (Continued)

OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-cafr.html.

Note 11. Payments to Primary Government

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

Note 12. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2018, Tennessee Housing Development Agency implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. GASB Statement 75 establishes standards for the measurement, recognition, and display of the OPEB liability and related expenses, deferred inflows, deferred outflows, note disclosure and required supplementary information. The implementation of GASB 75 resulted in a cumulative adjustment to the beginning net position of \$(1,780,287). This cumulative adjustment does not include related deferred inflows and deferred outflows of resources.

Note 13. Subsequent Events

On July 1, 2018, the agency used \$13,075,000 of Residential Finance Program Bonds, Issue 2018-2, to refund bonds previously issued in the Homeownership Program (this amount consists of \$13,075,000 early redemption). The carrying amount of these bonds was \$13,075,000. The refunding reduced the agency's debt service by \$3,199,665 over the next 11 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$1,636,564.

On July 27, 2018, THDA requested to withdraw approximately \$23,376,000 of excess funds from the Homeownership Program Bond Resolution to fund the acquisition of servicing rights from U.S. Bank. On July 30, 2018, THDA wired \$15,585,487 to U.S. Bank as a one-time servicing

Notes to the Financial Statements (Continued)

release and transfer fee payment. On August 6, 2018, THDA transferred \$7,902,932 to Volunteer Mortgage Loan Servicing (VMLS) to fund the VMLS Escrow Account for escrow advances.

Residential Finance Program Bonds, Issue 2018-3, were sold on September 6, 2018. The bond maturities are as follows:

	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
Series			
2018-3	7/1/2019 – 7/1/2049	\$149,900,000	1.500 to 4.250

Residential Finance Program Bonds, Issue 2018-4, were authorized by the board of directors on September 25, 2018, not to exceed \$225,000,000. The sale of the bonds will occur no later than December 31, 2018.

Residential Finance Program Bonds, Issue 2019-1, were authorized by the board of directors on November 13, 2018, not to exceed \$175,000,000. The sale of the bonds will occur no later than June 30, 2019.

Residential Finance Program Bonds, Issue 2018-4, were sold on November 15, 2018. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2018-4	7/1/2019 – 7/1/2049	\$225,000,000	1.875 to 4.500

Residential Finance Program Bonds, Issue 2019-1, were sold on March 21, 2019. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2019-1	1/1/2020 – 1/1/2050	\$175,000,000	1.600 to 4.250

Residential Finance Program Bonds, Issue 2019-2, were authorized by the board of directors on March 26, 2019, not to exceed \$200,000,000. The sale of the bonds will occur no later than July 31, 2019.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA's Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentag e of the Total Pension Liability
2018	0.170803%	\$35	\$3,068	1.15%	131.51%
2017	0.391715%	\$33	\$1,661	1.99%	130.56%
2016	0.457171%	\$13	\$498	2.60%	142.55%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.427994%	\$7,659	\$10,268	74.60%	88.88%
2017	0.419391%	7,652	10,240	74.73%	87.96%
2016	0.421046%	5,429	10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
State and Higher Education Employee Retirement Plan Within TCRS

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2018	\$57	\$57	\$-	\$4,410	1.29%
2017	35	35		3,068	1.14%
2016	47	47	-	1,661	2.81%
2015	19	19	-	498	3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
Closed State and Higher Education Employee Pension Plan With TCRS

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2018	\$1,891	\$1,891	\$-	\$ 10,024	18.87%
2017	1,542	1,542	-	10,268	15.02%
2016	1,539	1,539	-	10,240	15.03%
2015	1,652	1,652	-	10,994	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%
2009	1,201	1,201	-	9,224	13.02%

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of Collective Total OPEB Liability
Closed State Employee Group OPEB Plan

(Expressed in Thousands)

EGOP

	<u>2018</u>
Employer proportion of the collective total OPEB liability	0.2664798%
Employer proportionate share of the collective total OPEB liability	\$ 3,578
Covered-employee payroll	\$ 9,720
Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	36.81%

Notes to Schedule

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of Collective Total OPEB Liability
Closed Tennessee OPEB Plan

(Expressed in Thousands)

TNP

	<u>2018</u>
Employer proportion of the collective total OPEB liability	0.00%
Employer proportionate share of the collective total OPEB liability	\$ -
Primary government proportionate share of the collective total OPEB liability	<u>\$ 339</u>
Collective total OPEB liability	<u>\$ 339</u>

Covered-employee payroll	\$ 10,005

Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	0.00%

Notes to Schedule

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 4,148	\$ 13,031	\$ 28,457	\$ 19,785	\$ 150,770	\$ 216,191
Investments	-	735	7,145	8,215	67,784	83,879
Receivables:						
Accounts	-	294	532	-	13	839
Interest	-	19	1,656	1,967	7,513	11,155
First mortgage loans	155	2,185	12,897	6,964	37,567	59,768
Due from federal government	34,977	-	-	-	-	34,977
Due from other funds	-	-	-	-	3,167	3,167
Total current assets	39,280	16,264	50,687	36,931	266,814	409,976
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	31,714	-	33,942	363	534	66,553
Investments	-	-	58,514	20,351	48,947	127,812
Investment Interest receivable	-	-	548	69	173	790
Investments	-	1,744	-	-	46,851	48,595
First mortgage loans receivable	534	48,811	243,154	258,555	1,507,348	2,058,402
Second mortgage loans receivable	-	-	38,108	-	-	38,108
Allowance for uncollectable second mortgages	-	-	(14,031)	-	-	(14,031)
Unearned service release premiums	1,106	-	-	-	-	1,106
Advance to local government	3,135	-	-	-	-	3,135
Net pension asset	35	-	-	-	-	35
Capital assets:						
Furniture and equipment	5,108	-	-	-	-	5,108
Less accumulated depreciation	(2,232)	-	-	-	-	(2,232)
Total noncurrent assets	39,400	50,555	360,235	279,338	1,603,853	2,333,381
Total assets	78,680	66,819	410,922	316,269	1,870,667	2,743,357
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	-	-	441	441
Deferred outflows related to pensions	3,931	-	-	-	-	3,931
Deferred outflows related to OPEB	237	-	-	-	-	237
Total deferred outflows of resources	4,168	-	-	-	441	4,609
LIABILITIES						
Current liabilities:						
Accounts payable	15,757	13	6	30	69	15,875
Accrued payroll and related liabilities	680	-	-	-	-	680
Compensated absences	736	-	-	-	-	736
Due to primary government	91	-	-	-	-	91
Interest payable	-	-	4,289	4,433	23,459	32,181
Escrow deposits	2,719	-	-	-	-	2,719
Prepayments on mortgage loans	-	-	147	128	930	1,205
Due to federal government	29,517	-	-	-	-	29,517
Due to other funds	392	-	2,775	-	-	3,167
Bonds payable	-	-	28,545	11,450	47,950	87,945
Total current liabilities	49,892	13	35,762	16,041	72,408	174,116
Noncurrent liabilities:						
Bonds payable	-	-	194,843	251,696	1,594,228	2,040,767
Compensated absences	630	-	-	-	-	630
Net pension liability	7,659	-	-	-	-	7,659
Net OPEB liability	3,578	-	-	-	-	3,578
Escrow deposits	696	192	-	-	9,708	10,596
Arbitrage rebate payable	-	-	365	-	-	365
Total noncurrent liabilities	12,563	192	195,208	251,696	1,603,936	2,063,595
Total liabilities	62,455	205	230,970	267,737	1,676,344	2,237,711
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	228	-	-	-	-	228
Deferred inflows related to OPEB	137	-	-	-	-	137
Total deferred inflows of resources	365	-	-	-	-	365
NET POSITION						
Net investment in capital assets	2,876	-	-	-	-	2,876
Restricted for single family bond programs	-	-	179,952	48,532	194,764	423,248
Restricted for grant programs	-	12,080	-	-	-	12,080
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for net pension asset	35	-	-	-	-	35
Unrestricted	13,964	54,534	-	-	-	68,498
Total net position	\$ 20,028	\$ 66,614	\$ 179,952	\$ 48,532	\$ 194,764	\$ 509,890

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ 10	\$ -	\$ 14,521	\$ 13,277	\$ 62,297	\$ 90,105
Investment income:						
Interest	220	157	2,711	785	3,152	7,025
Net increase (decrease) in the fair value of investments	-	6	(2,096)	(461)	(1,736)	(4,287)
Federal grant administration fees	15,279	-	-	-	-	15,279
Fees and other income	4,478	1	-	-	724	5,203
Total operating revenues	19,987	164	15,136	13,601	64,437	113,325
OPERATING EXPENSES						
Salaries and benefits	20,177	-	-	-	-	20,177
Contractual services	6,079	-	-	-	135	6,214
Materials and supplies	1,436	-	-	-	-	1,436
Rentals and insurance	12	-	-	-	-	12
Other administrative expenses	836	-	-	-	-	836
Other program expenses	598	7	3,594	254	1,119	5,572
Interest expense	-	19	9,127	8,951	40,142	58,239
Mortgage service fees	-	137	948	1,000	4,748	6,833
Issuance costs	-	-	-	-	3,812	3,812
Depreciation	476	-	-	-	-	476
Total operating expenses	29,614	163	13,669	10,205	49,956	103,607
Operating income (loss)	(9,627)	1	1,467	3,396	14,481	9,718
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	317,323	-	-	-	-	317,323
Other grant revenue	-	3	-	-	-	3
Federal grants expenses	(317,388)	-	-	-	-	(317,388)
Local grants expenses	(7,952)	-	-	-	-	(7,952)
Total nonoperating revenues (expenses)	(8,017)	3	-	-	-	(8,014)
Income (loss) before transfers	(17,644)	4	1,467	3,396	14,481	1,704
Transfers (to) other funds	-	(6,531)	(10,576)	(7,910)	-	(25,017)
Transfers from other funds	20,764	-	-	-	4,253	25,017
Change in net position	3,120	(6,527)	(9,109)	(4,514)	18,734	1,704
Total net position, July 1	18,688	73,141	189,061	53,046	176,030	509,966
Cumulative effect of a change in accounting principle	(1,780)	-	-	-	-	(1,780)
Total net position, July 1, as restated	16,908	73,141	189,061	53,046	176,030	508,186
Total net position, June 30	\$ 20,028	\$ 66,614	\$ 179,952	\$ 48,532	\$ 194,764	\$ 509,890

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ 1,270	\$ 3,912	\$ 90,115	\$ 68,270	\$ 209,833	\$ 373,400
Receipts from federal government	15,030	-	-	-	-	15,030
Receipts from other funds	2,255	-	485	-	-	2,740
Other miscellaneous receipts	4,478	1	-	-	724	5,203
Acquisition of mortgage loans	-	(4,859)	(10,254)	-	(448,304)	(463,417)
Payments to service mortgages	(1,106)	(137)	(948)	(1,000)	(4,748)	(7,939)
Payments to suppliers	(10,169)	-	(4,064)	(1,003)	(1,235)	(16,471)
Payments to federal government	-	-	(1,490)	-	-	(1,490)
Payments to other funds	-	-	-	-	(2,740)	(2,740)
Payments to or for employees	(20,844)	-	-	-	-	(20,844)
Net cash provided (used) by operating activities	(9,086)	(1,083)	73,844	66,267	(246,470)	(116,528)
Cash flows from non-capital financing activities:						
Operating grants received	313,997	3	-	-	-	314,000
Transfers in (out)	20,764	(6,531)	10,761	(7,910)	(17,084)	-
Proceeds from sale of bonds	-	-	-	-	469,989	469,989
Operating grants paid	(319,857)	-	-	-	-	(319,857)
Call premium paid	-	-	(14)	-	-	(14)
Cost of issuance paid	-	-	-	-	(3,812)	(3,812)
Principal payments	-	-	(101,875)	(57,825)	(155,025)	(314,725)
Interest paid	-	(19)	(11,955)	(10,696)	(39,816)	(62,486)
Net cash provided (used) by non-capital financing activities	14,904	(6,547)	(103,083)	(76,431)	254,252	83,095
Cash flows from capital and related financing activities:						
Purchases of capital assets	(1,542)	-	-	-	-	(1,542)
Net cash used by capital and related financing activities	(1,542)	-	-	-	-	(1,542)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	15,587	49,231	21,430	117,222	203,470
Purchases of investments	-	(15,709)	(50,725)	(32,262)	(163,821)	(262,517)
Investment interest received	220	157	2,933	765	3,076	7,151
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	34	143	79	437	693
Net cash provided (used) by investing activities	220	69	1,582	(9,988)	(43,086)	(51,203)
Net increase (decrease) in cash and cash equivalents	4,496	(7,561)	(27,657)	(20,152)	(35,304)	(86,178)
Cash and cash equivalents, July 1	31,366	20,592	90,056	40,300	186,608	368,922
Cash and cash equivalents, June 30	\$ 35,862	\$ 13,031	\$ 62,399	\$ 20,148	\$ 151,304	\$ 282,744

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (9,627)	\$ 1	\$ 1,467	\$ 3,396	\$ 14,481	\$ 9,718
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	476	-	-	-	-	476
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	-	(83)	(532)	-	769	154
(Increase) decrease in mortgage interest receivable	-	-	905	591	(1,155)	341
(Increase) in pension asset	(2)	-	-	-	-	(2)
(Increase) in deferred pension outflows	(67)	-	-	-	-	(67)
Decrease in deferred OPEB outflows	4	-	-	-	-	4
(Increase) decrease in mortgage loans receivable	-	(940)	65,055	54,449	(307,034)	(188,470)
(Increase) in due from federal government	(249)	-	-	-	-	(249)
Decrease in interfund receivables	2,255	-	485	-	-	2,740
(Decrease) in interfund payables	-	-	-	-	(2,740)	(2,740)
Increase (decrease) in accounts payable	228	83	(1,303)	(796)	6,671	4,883
(Decrease) in unearned service release premiums	(1,106)					(1,106)
Increase in accrued payroll / compensated absences	100	-	-	-	-	100
(Decrease) in due to primary government	(632)	-	-	-	-	(632)
(Decrease) in arbitrage rebate liability	-	-	(745)	-	-	(745)
Increase in pension liability	7	-	-	-	-	7
(Decrease) in OPEB liability	(104)					(104)
(Decrease) in deferred pension inflows	(286)	-	-	-	-	(286)
Increase in deferred OPEB inflows	137	-	-	-	-	137
Investment income included as operating revenue	(220)	(163)	(615)	(324)	(1,416)	(2,738)
Interest expense included as operating expense	-	19	9,127	8,951	40,142	58,239
Issuance cost included as operating expense	-	-	-	-	3,812	3,812
Total adjustments	541	(1,084)	72,377	62,871	(260,951)	(126,246)
Net cash provided (used) by operating activities	\$ (9,086)	\$ (1,083)	\$ 73,844	\$ 66,267	\$ (246,470)	\$ (116,528)
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	\$ -	\$ (43)	\$ (1,633)	\$ (560)	\$ (2,585)	\$ (4,821)
Total noncash investing, capital, and financing activities	\$ -	\$ (43)	\$ (1,633)	\$ (560)	\$ (2,585)	\$ (4,821)

***UNAUDITED FINANCIAL
INFORMATION***

December 31, 2018

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

	December 31, 2018					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2018
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 9,426	\$ 10,125	\$ 32,526	\$ 25,519	\$ 232,896	\$ 310,492
Investments	-	735	-	-	41,981	42,716
Receivables:						
Accounts	6,174	312	-	-	-	6,486
Interest	-	18	1,301	1,721	8,578	11,618
First mortgage loans	155	2,218	12,333	7,564	44,928	67,198
Due from federal government	14,638	-	-	-	-	14,638
Due from other funds	-	-	-	-	27,380	27,380
Total current assets	30,393	13,408	46,160	34,804	355,763	480,528
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	32,247	-	7,663	172	271	40,353
Investments	-	-	57,030	16,100	21,961	95,091
Investment interest receivable	-	-	525	63	55	643
Investments	-	1,764	295	331	64,345	66,735
First mortgage loans receivable	527	48,869	204,367	237,587	1,783,558	2,274,908
Second mortgage loans receivable	-	-	44,978	-	-	44,978
Allowance for uncollectable second mortgages	-	-	(16,727)	-	-	(16,727)
Unearned service release premiums	18,936	-	-	-	-	18,936
Advance to local government	3,141	-	-	-	-	3,141
Net pension asset	35	-	-	-	-	35
Capital assets:						
Furniture and equipment	5,108	-	-	-	-	5,108
Less accumulated depreciation	(2,232)	-	-	-	-	(2,232)
Total noncurrent assets	57,762	50,633	298,131	254,253	1,870,190	2,530,969
Total assets	88,155	64,041	344,291	289,057	2,225,953	3,011,497
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	-	-	386	386
Deferred outflows related to pensions	3,931	-	-	-	-	3,931
Deferred outflows related to OPEB	237	-	-	-	-	237
Total deferred outflows of resources	4,168	-	-	-	386	4,554
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 1,148	\$ 13	\$ 372	\$ 1,146	\$ 2,698	\$ 5,377
Accrued payroll and related liabilities	680	-	-	-	-	680
Compensated absences	736	-	-	-	-	736
Interest payable	-	-	3,579	3,890	28,381	35,850
Escrow deposits	12,671	-	-	-	-	12,671
Prepayments on mortgage loans	-	-	98	94	770	962
Due to federal government	19,046	-	-	-	-	19,046
Due to other funds	24,087	-	3,293	-	-	27,380
Bonds payable	-	-	30,015	10,580	63,455	104,050
Total current liabilities	58,368	13	37,357	15,710	95,304	206,752
Noncurrent liabilities:						
Bonds payable	-	-	158,754	223,986	1,886,382	2,269,122
Compensated absences	630	-	-	-	-	630
Net pension liability	7,659	-	-	-	-	7,659
Total OPEB liability	3,578	-	-	-	-	3,578
Escrow deposits	1,669	202	-	-	9,479	11,350
Arbitrage rebate payable	-	-	365	-	-	365
Total noncurrent liabilities	13,536	202	159,119	223,986	1,895,861	2,292,704
Total liabilities	71,904	215	196,476	239,696	1,991,165	2,499,456
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	228	-	-	-	-	228
Deferred inflows related to OPEB	137	-	-	-	-	137
Total deferred inflows of resources	365	-	-	-	-	365
NET POSITION						
Net investment in capital assets	2,876	-	-	-	-	2,876
Restricted for single family bond programs	-	-	147,815	49,361	235,174	432,350
Restricted for grant programs	-	15,712	-	-	-	15,712
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for pension asset	35	-	-	-	-	35
Unrestricted	13,990	48,114	-	-	-	62,104
Total net position	\$ 20,054	\$ 63,826	\$ 147,815	\$ 49,361	\$ 235,174	\$ 516,230

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Six Months Ended December 31, 2018

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2018
OPERATING REVENUES						
Mortgage interest income	\$ -	\$ 10	\$ 5,568	\$ 5,729	\$ 38,268	\$ 49,575
Investment income:						
Interest	191	107	1,141	393	2,135	3,967
Net increase in the fair value of investments	-	27	278	343	1,736	2,384
Federal grant administration fees	7,029	-	-	-	-	7,029
Fees and other income	2,913	1	-	-	86	3,000
Total operating revenues	10,133	145	6,987	6,465	42,225	65,955
OPERATING EXPENSES						
Salaries and benefits	10,592	-	-	-	-	10,592
Contractual services	3,591	-	-	-	-	3,591
Materials and supplies	658	-	-	-	-	658
Rentals and insurance	5	-	-	-	-	5
Other administrative expenses	409	-	-	-	-	409
Other program expenses	889	7	3,136	2	839	4,873
Interest expense	-	-	3,442	3,828	25,764	33,034
Mortgage service fees	-	69	87	77	415	648
Issuance costs	-	-	-	-	2,772	2,772
Total operating expenses	16,144	76	6,665	3,907	29,790	56,582
Operating income (loss)	(6,011)	69	322	2,558	12,435	9,373
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	146,887	-	-	-	-	146,887
Federal grants expenses	(146,675)	-	-	-	-	(146,675)
Local grants expenses	(3,245)	-	-	-	-	(3,245)
Total nonoperating revenues (expenses)	(3,033)	-	-	-	-	(3,033)
Income (loss) before transfers	(9,044)	69	322	2,558	12,435	6,340
Transfers (to) other funds	-	(2,857)	(32,459)	(1,729)	-	(37,045)
Transfers from other funds	9,070	-	-	-	27,975	37,045
Change in net position	26	(2,788)	(32,137)	829	40,410	6,340
Total net position, July 1	20,028	66,614	179,952	48,532	194,764	509,890
Total net position, End of period	\$ 20,054	\$ 63,826	\$ 147,815	\$ 49,361	\$ 235,174	\$ 516,230

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Six Months Ended December 31, 2018

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2018
Cash flows from operating activities:						
Receipts from customers	\$ 4,752	\$ 1,176	\$ 34,782	\$ 27,423	\$ 117,312	\$ 185,445
Receipts from federal government	6,780	-	-	-	-	6,780
Receipts from other funds	23,695	-	518	-	-	24,213
Other miscellaneous receipts	2,913	1	-	-	86	3,000
Acquisition of mortgage loans	-	(1,264)	(8,880)	-	(343,758)	(353,902)
Payments of service release premiums	(18,614)	-	-	-	-	(18,614)
Payments to service mortgages	-	(69)	(87)	(77)	(415)	(648)
Payments to suppliers	(5,929)	(7)	(5,466)	-	-	(11,402)
Payments to other funds	-	-	-	-	(24,213)	(24,213)
Payments to or for employees	(10,815)	-	-	-	-	(10,815)
Net cash provided (used) by operating activities	<u>2,782</u>	<u>(163)</u>	<u>20,867</u>	<u>27,346</u>	<u>(250,988)</u>	<u>(200,156)</u>
Cash flows from non-capital financing activities:						
Operating grants received	157,004	-	-	-	-	157,004
Transfers in (out)	9,070	(2,857)	(14,077)	(1,729)	9,593	-
Proceeds from sale of bonds	-	-	-	-	385,126	385,126
Operating grants paid	(163,236)	-	-	-	-	(163,236)
Cost of issuance paid	-	-	-	-	(2,772)	(2,772)
Principal payments	-	-	(34,275)	(28,235)	(74,425)	(136,935)
Interest paid	-	-	(4,495)	(4,716)	(23,829)	(33,040)
Net cash provided (used) by non-capital financing activities	<u>2,838</u>	<u>(2,857)</u>	<u>(52,847)</u>	<u>(34,680)</u>	<u>293,693</u>	<u>206,147</u>
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	-	14,260	24,925	65,227	104,412
Purchases of investments	-	-	(5,770)	(12,515)	(28,752)	(47,037)
Investment interest received	191	106	1,158	399	2,127	3,981
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	8	122	68	556	754
Net cash provided by investing activities	<u>191</u>	<u>114</u>	<u>9,770</u>	<u>12,877</u>	<u>39,158</u>	<u>62,110</u>
Net increase (decrease) in cash and cash equivalents	5,811	(2,906)	(22,210)	5,543	81,863	68,101
Cash and cash equivalents, July 1	<u>35,862</u>	<u>13,031</u>	<u>62,399</u>	<u>20,148</u>	<u>151,304</u>	<u>282,744</u>
Cash and cash equivalents, End of period	<u>\$ 41,673</u>	<u>\$ 10,125</u>	<u>\$ 40,189</u>	<u>\$ 25,691</u>	<u>\$ 233,167</u>	<u>\$ 350,845</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Six Months Ended December 31, 2018

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 12/31/2018
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (6,011)	\$ 69	\$ 322	\$ 2,558	\$ 12,435	\$ 9,373
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(6,174)	(18)	532	-	13	(5,647)
(Increase) decrease in mortgage interest receivable	-	1	360	246	(939)	(332)
(Increase) decrease in mortgage loans receivable	-	(91)	16,795	20,368	(265,189)	(228,117)
(Increase) in due from federal government	(249)	-	-	-	-	(249)
(Increase) in unearned service release premiums	(17,830)	-	-	-	-	(17,830)
Increase (decrease) in interfund payables	23,695	-	518	-	(24,213)	-
Increase in accounts payable	9,633	10	317	1,082	2,240	13,282
(Decrease) in due to primary government	(91)	-	-	-	-	(91)
Investment income included as operating revenue	(191)	(134)	(1,419)	(736)	(3,871)	(6,351)
Interest expense included as operating expense	-	-	3,442	3,828	25,764	33,034
Issuance cost included as operating expense	-	-	-	-	2,772	2,772
Total adjustments	<u>8,793</u>	<u>(232)</u>	<u>20,545</u>	<u>24,788</u>	<u>(263,423)</u>	<u>(209,529)</u>
Net cash provided (used) by operating activities	<u>\$ 2,782</u>	<u>\$ (163)</u>	<u>\$ 20,867</u>	<u>\$ 27,346</u>	<u>\$ (250,988)</u>	<u>\$ (200,156)</u>
Noncash investing, capital, and financing activities:						
Increase in fair value of investments	-	20	165	204	502	891
Total noncash investing, capital, and financing activities	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ 165</u>	<u>\$ 204</u>	<u>\$ 502</u>	<u>\$ 891</u>

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the “Working Agreements”). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA’s security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA’s rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent’s privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the “O.A. Guide”), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA no longer has servicing agreements with outside entities. As of August 1, 2018, all servicing of THDA Program Loans is handled by Volunteer Mortgage Loan Servicing, a division of THDA. See Appendix G under the heading “Loan Servicing” for more information.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove and in Appendix G.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the “General Residential Finance Program Bond Resolution.”

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

“*Account*” means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

“*Accountant*” means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

“*Act*” means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

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

“*Authorized Officer*” means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

“*Bond*” or “*Bonds*” means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

“*Bond Counsel's Opinion*” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

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

“*Bond Reserve Fund*” means the Bond Reserve Fund established pursuant to Section 5.1.

“*Bond Reserve Fund Requirement*” means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

“*Code*” means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

- (1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;
- (2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

“Program Security” means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

“Projected Cash Flow Statement” means a Certificate delivered pursuant to the provisions of Section 7.11.

“Rating Agency” means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody’s and S&P.

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

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

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

“Refunding Bond” means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

“Resolution” means this Resolution and any amendments or supplements made in accordance with its terms.

“Revenue Fund” means the Revenue Fund established pursuant to Section 5.1.

“Revenues” means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

“S&P” means Standard & Poor’s Rating Services, a Standard & Poor’s Financial Services LLC business, and any successor.

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

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

“State” means the State of Tennessee.

“Supplemental Resolution” means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

“THDA” means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

“Trustee” means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI

REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

(1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or

(2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or

(3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of or Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$823,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

Amount

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Outstanding as of April 30, 2019 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A1	December 23, 2009	\$ 100,000,000	\$ --	\$ 1,525,000	3.96%
2010-A1 ⁽²⁾	June 17, 2010	74,710,000	85,290,000	8,140,000 ⁽²⁾	3.85
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	35,170,000	3.15
2011-A/ 2011-B, Subseries B-4	April 14, 2011	40,000,000	60,000,000	10,405,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	40,775,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,850,000	34,710,000	36,220,000	3.01
2015-A	May 28, 2015	<u>163,850,000</u>	<u>--</u>	<u>88,100,000</u>	2.78
TOTAL		<u>\$ 523,850,000</u>	<u>\$ 300,000,000</u>	<u>\$ 220,335,000</u>	

(1) Bond yield.

(2) To be refunded with proceeds of Issue 2019-2.

As of March 31, 2019 (unaudited), 2,724 mortgage loans in the approximate aggregate principal amount of \$220,306,091 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$567,690,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of April 30, 2019 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2010-1	October 13, 2010	120,700,000	\$ 26,920,000	3.57
2011-1	December 1, 2011	141,255,000	41,720,000	3.80
2012-1	July 19, 2012	133,110,000	51,455,000	3.26
2012-2	November 15, 2012	97,625,000	40,235,000	2.92
TOTAL		<u>\$ 567,690,000</u>	<u>\$ 160,330,000</u>	

(1) Bond yield.

As of March 31, 2019 (unaudited), 4,190 mortgage loans in the approximate aggregate principal amount of \$191,835,461 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets relating to bond proceeds, including mortgage loans, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution. Certain assets and investments not related to bond proceeds remain in the General Fund of the 1974 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. THDA established eligibility requirements for the mortgage credit certificate program and loans assisted with a mortgage credit certificate may not be funded with proceeds of qualified mortgage bonds such as the Issue 2019-2 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets. These assets are invested only in investments authorized by the Act, THDA's investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA's investment of THDA assets to the Executive Director of THDA. For information related to THDA's investment of assets held under the General Resolution, see FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM—Investments.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

**RESIDENTIAL FINANCE PROGRAM LOAN
ORIGINATING AND SERVICING PROCEDURES****General**

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2019-2 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

Effective as of May 27, 2019, THDA income limits will range from \$64,500 to \$112,000 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

THDA is self-servicing its entire mortgage loan portfolio through Volunteer Mortgage Loan Servicing ("VMLS"), a division of THDA. VMLS began servicing operations as of November 1, 2016, with the servicing of a small THDA mortgage loan portfolio previously serviced by Pinnacle Bank. Since June 1, 2018, all THDA Originating Agents have been transferring all servicing for new THDA Program Loans directly to VMLS. The remaining servicing portfolio, previously serviced by U.S. Bank, was transferred to THDA on August 1, 2018; in conjunction with such transfer THDA paid \$23,376,000 to U.S. Bank with funds withdrawn from the lien of the 1985 General Resolution in accordance with its terms as a one-time servicing release and transfer fee.

June 27, 2019

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$200,000,000 Issue 2019-2 (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$200,000,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2019-2 (Non-AMT) (the "Issue 2019-2 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2019-2 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on March 26, 2019, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on June 4, 2019 (together, the "Supplemental Resolution," and together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2019-2 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2019-2 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2019-2 Bonds are being issued to refund certain outstanding obligations of THDA and to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2019-2 Bonds in order that interest on the Issue 2019-2 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2019-2 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.

2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.

3. The Issue 2019-2 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2019-2 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2019-2 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.

6. The Issue 2019-2 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.

7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2019-2 Bonds is excluded from gross income of the owners thereof for federal income tax purposes and (ii) interest on the Issue 2019-2 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals under the alternative minimum tax provisions of the Code.

8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2019-2 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2019-2 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2019-2 Bonds may have to take interest on such Issue 2019-2 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2019-2 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2019-2 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2019-2 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES*

Delinquencies and Foreclosures as of March 31, 2019

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.81%, based on a total of 18,476 Program Loans as of March 31, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2019, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	287	\$ 28,828,398	1.83%	1.01% ⁽⁴⁾
VA Guaranteed	2	155,642	0.52	0.69
Privately Insured	26	2,034,490	3.96	0.63
USDA/RD Guaranteed.....	16	990,600	1.60	(5)
Uninsured.....	4	320,540	0.55	(5)
TOTAL.....	335	\$ 32,329,669 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.09%, based on a total of 18,476 Program Loans as of March 31, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2019, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	670	\$ 66,301,938	4.27%	1.40% ⁽⁴⁾
VA Guaranteed	10	956,378	2.61	1.11
Privately Insured	27	2,268,310	4.12	0.88
USDA/RD Guaranteed.....	30	2,091,767	2.99	(5)
Uninsured.....	19	1,229,185	2.59	(5)
TOTAL.....	756	\$ 72,847,577 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bond issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding loans financed pursuant to the 1974 General Resolution that were transferred to the General Resolution as of June 30, 2014.

The overall rate of Program Loans in foreclosure was 0.20%, based on a total of 18,476 Program Loans as of March 31, 2019 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2019, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	29	\$ 2,483,381	0.18%	0.44% ⁽⁴⁾
VA Guaranteed	1	26,788	0.26	0.70
Privately Insured	3	363,121	0.46	0.34
USDA/RD Guaranteed.....	3	169,886	0.30	(5)
Uninsured.....	1	74,107	0.14	(5)
TOTAL.....	37	\$ 3,117,283 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

Delinquencies and Foreclosures as of December 31, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.81%, based on a total of 17,764 Program Loans as of December 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	444	\$ 46,663,618	2.96 %	0.96% ⁽⁴⁾
VA Guaranteed	3	252,595	0.83	0.79
Privately Insured	19	1,554,721	2.81	0.65
USDA/RD Guaranteed.....	26	1,762,360	2.60	(5)
Uninsured.....	8	512,953	1.11	(5)
TOTAL.....	500	\$ 50,746,246 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.55%, based on a total of 17,764 Program Loans as of December 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance ⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	692	\$ 66,450,810	4.61 %	1.59 % ⁽⁴⁾
VA Guaranteed	13	982,060	3.59	1.22
Privately Insured	36	2,839,047	5.32	0.92
USDA/RD Guaranteed.....	40	2,611,826	4.00	(5)
Uninsured.....	27	1,478,036	3.76	(5)
TOTAL.....	<u>808</u>	<u>\$ 74,361,778⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.29%, based on a total of 17,764 Program Loans as of December 31, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of December 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2018, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance ⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	41	\$ 3,903,225	0.27 %	0.56 % ⁽⁴⁾
VA Guaranteed	1	26,788	0.28	0.69
Privately Insured	4	385,659	0.59	0.36
USDA/RD Guaranteed.....	4	252,649	0.40	(5)
Uninsured.....	1	74,107	0.14	(5)
TOTAL.....	<u>51</u>	<u>\$ 4,642,429⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of September 30, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 3.04%, based on a total of 16,597 Program Loans as of September 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National

Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	426	\$ 41,442,638	3.05%	1.15% ⁽⁴⁾
VA Guaranteed	7	670,961	2.11	0.87
Privately Insured	30	2,407,682	3.68	0.68
USDA/RD Guaranteed.....	36	2,582,641	3.83	(5)
Uninsured.....	5	308,508	0.93	(5)
TOTAL.....	<u>504</u>	<u>\$ 47,412,430⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2018.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.34%, based on a total of 16,597 Program Loans as of September 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	618	\$ 59,661,632	4.42%	1.55% ⁽⁴⁾
VA Guaranteed	11	714,521	3.31	1.19
Privately Insured	48	3,461,082	5.89	0.94
USDA/RD Guaranteed.....	31	2,170,545	3.30	(5)
Uninsured.....	12	859,273	2.24	(5)
TOTAL.....	<u>720</u>	<u>\$ 66,867,054⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.26%, based on a total of 16,597 Program Loans as of September 30, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2018 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2018, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	33	\$ 3,103,475	0.24 %	0.53% ⁽⁴⁾
VA Guaranteed	2	132,797	0.60	0.70
Privately Insured	2	93,072	0.25	0.34
USDA/RD Guaranteed.....	4	252,649	0.43	(5)
Uninsured.....	2	195,224	0.37	(5)
TOTAL.....	43	\$ 3,777,217 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of June 30, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.92%, based on a total of 15,717 Program Loans as of June 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	256	\$ 25,949,023	1.94 %	0.90% ⁽⁴⁾
VA Guaranteed	1	91,632	0.33	0.72
Privately Insured	17	1,360,302	1.97	0.64
USDA/RD Guaranteed.....	22	1,528,002	2.51	(5)
Uninsured.....	6	540,523	1.19	(5)
TOTAL.....	302	\$ 29,469,483 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.28%, based on a total of 15,717 Program Loans as of June 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	550	\$ 50,668,667	4.18 %	1.26% ⁽⁴⁾
VA Guaranteed	14	683,883	4.64	1.11
Privately Insured	59	3,487,636	6.85	0.95
USDA/RD Guaranteed.....	36	2,377,390	4.10	(5)
Uninsured.....	14	712,446	2.77	(5)
TOTAL	<u>673</u>	<u>\$ 57,930,022⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.67%, based on a total of 15,717 Program Loans as of June 30, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of June 30, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2018, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	92	\$ 7,868,238	0.70 %	0.45% ⁽⁴⁾
VA Guaranteed	3	253,872	0.99	0.75
Privately Insured	4	189,208	0.46	0.37
USDA/RD Guaranteed.....	6	295,347	0.68	(5)
Uninsured.....	1	19,835	0.20	(5)
TOTAL	<u>106</u>	<u>\$ 8,626,500⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.



Tennessee Housing
Development Agency

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2019-3 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that interest on the Issue 2019-3 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals under the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"). In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2019-3 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2019-3 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY

Residential Finance Program Bonds \$150,000,000 Issue 2019-3 (Non-AMT)

Dated: Date of Delivery

Due: As shown on inside front cover

The Issue 2019-3 Bonds (the "Issue 2019-3 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on January 1, 2020, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about September 30, 2019.

RAYMOND JAMES

CITIGROUP

RBC CAPITAL MARKETS

J.P. MORGAN WELLS FARGO SECURITIES

WILEY BROTHERS—AINTREE CAPITAL, LLC

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$150,000,000 Issue 2019-3 (Non-AMT)

\$27,500,000 Serial Bonds

<u>Year</u>	<u>Principal Amount Due January 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>	<u>Principal Amount Due July 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
2020				\$ 600,000	1.100 %	880461ZV3
2021	\$ 980,000	1.150 %	880461ZW1	990,000	1.200	880461ZX9
2022	995,000	1.250	880461ZY7	1,005,000	1.300	880461ZZ4
2023	1,020,000	1.350	880461A24	1,030,000	1.350	880461A32
2024	1,040,000	1.375	880461A40	1,055,000	1.400	880461A57
2025	1,060,000	1.500	880461A65	1,075,000	1.550	880461A73
2026	1,090,000	1.600	880461A81	1,105,000	1.650	880461A99
2027	1,115,000	1.700	880461B23	1,130,000	1.750	880461B31
2028	1,145,000	1.800	880461B49	1,160,000	1.850	880461B56
2029	1,175,000	1.900	880461B64	1,195,000	1.950	880461B72
2030	1,210,000	2.000	880461B80	1,225,000	2.050	880461B98
2031	1,245,000	2.100	880461C22	1,265,000	2.150	880461C30
2032	1,285,000	2.250	880461C48	1,305,000	2.300	880461C55

\$122,500,000 Term Bonds

<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
July 1, 2034	\$ 5,440,000	2.40 %	880461C63
July 1, 2039	15,430,000	2.60	880461C71
July 1, 2044	18,580,000	2.80	880461C89
July 1, 2049	22,550,000	2.95	880461C97
January 1, 2050 (PAC)	60,500,000	3.75	880461D39

PRICE OF ISSUE 2019-3 BONDS DUE JANUARY 1, 2050 (PAC): 110.677%

PRICE OF ALL REMAINING ISSUE 2019-3 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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CSG ADVISORS INCORPORATED

Financial Advisor

OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY
Residential Finance Program Bonds
\$150,000,000 Issue 2019-3 (Non-AMT)

INTRODUCTION

This Official Statement (the “Official Statement”) provides certain information in connection with the issuance by the Tennessee Housing Development Agency (“THDA”) of its Residential Finance Program Bonds, Issue 2019-3 in the aggregate principal amount of \$150,000,000 (the “Issue 2019-3 Bonds” or the “Offered Bonds”).

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the “Act”). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the “General Resolution” or the “2013 General Resolution”) and by a Resolution adopted by THDA on July 23, 2019, as amended and supplemented by the Bond Finance Committee of THDA (the “Bond Finance Committee”) on September 4, 2019 (the “Issue 2019-3 Supplemental Resolution”). The General Resolution and the Issue 2019-3 Supplemental Resolution are herein collectively referred to as the “Resolution.”

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2019-3 Bonds on July 22, 2019.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of July 31, 2019 (unaudited), Bonds in the aggregate principal amount of \$2,178,820,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$204,305,000 were outstanding under THDA’s Housing Finance Program Resolution (the “2009 General Resolution”), and bonds in the aggregate principal amount of \$150,655,000 were outstanding under THDA’s Homeownership Program Resolution (the “1985 General Resolution”). No bonds are outstanding under THDA’s Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”). For more information see “Other Financings—Housing Bond Resolution (Mortgage Finance Program)” in Appendix E.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption “SECURITY AND SOURCES OF PAYMENT OF BONDS”. All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the “Bonds”. The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the “Public Pledge Act”). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee’s codification of Article 9 of the Uniform Commercial Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects that the proceeds of the Issue 2019-3 Bonds will be used to: (i) refund certain bonds issued and outstanding under the 1985 General Resolution, the 2009 General Resolution, and the 2013 General Resolution (collectively, the "Prior Bonds"), (ii) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (iii) pay capitalized interest, if any; (iv) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (v) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds and the refunding of the Prior Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix G.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" refers to new Program Loans (including participations therein) financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2019-3 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA does not intend to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance. While the Issue 2019-3 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of June 30, 2019 (unaudited), 19,521 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$2,089,150,280. Based on the outstanding principal balance of Program Loans as of June 30, 2019 (unaudited), approximately 88.62% were FHA insured, approximately 2.19% were VA guaranteed, approximately 2.44% were insured by private mortgage insurance companies, approximately 4.27% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.47% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See "RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data" and Appendix B under the heading "Private Mortgage Insurance Programs".

U.S. Bank National Association (the “Trustee”) is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2019-3 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2019-3 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D “2013 GENERAL RESOLUTION”. Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, (“DTC”), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F “BOOK-ENTRY-ONLY SYSTEM” for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2019-3 Bonds and is payable on January 1, 2020, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2019-3 Bonds maturing on July 1, 2034, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2033, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2019-3 Term Bonds Due July 1, 2034

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2033	\$ 1,325,000	\$ 1,350,000
2034	1,370,000	1,395,000 (maturity)

The Issue 2019-3 Bonds maturing on July 1, 2039, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2035, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2019-3 Term Bonds Due July 1, 2039

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2035	\$ 1,420,000	\$ 1,445,000
2036	1,470,000	1,500,000
2037	1,525,000	1,555,000
2038	1,585,000	1,615,000
2039	1,640,000	1,675,000 (maturity)

The Issue 2019-3 Bonds maturing on July 1, 2044, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2040, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2019-3
Term Bonds Due July 1, 2044**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2040	\$ 1,700,000	\$ 1,735,000
2041	1,770,000	1,805,000
2042	1,835,000	1,870,000
2043	1,910,000	1,945,000
2044	1,985,000	2,025,000 (maturity)

The Issue 2019-3 Bonds maturing on July 1, 2049, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2045, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2019-3
Term Bonds Due July 1, 2049**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2045	\$ 2,065,000	\$ 2,100,000
2046	2,145,000	2,190,000
2047	2,230,000	2,275,000
2048	2,320,000	2,360,000
2049	2,410,000	2,455,000 (maturity)

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The Issue 2019-3 Bonds maturing on January 1, 2050 (the "PAC Bonds"), are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2020, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2019-3
PAC Term Bonds Due January 1, 2050**

Year	Amount Due January 1	Amount Due July 1
2020		\$ 530,000
2021	\$ 540,000	550,000
2022	565,000	575,000
2023	585,000	595,000
2024	610,000	620,000
2025	635,000	645,000
2026	660,000	670,000
2027	685,000	700,000
2028	715,000	730,000
2029	745,000	755,000
2030	775,000	790,000
2031	805,000	820,000
2032	835,000	855,000
2033	870,000	885,000
2034	905,000	925,000
2035	940,000	960,000
2036	980,000	1,000,000
2037	1,020,000	1,040,000
2038	1,060,000	1,080,000
2039	1,105,000	1,125,000
2040	1,150,000	1,170,000
2041	1,195,000	1,220,000
2042	1,245,000	1,270,000
2043	1,295,000	1,320,000
2044	1,345,000	1,370,000
2045	1,400,000	1,430,000
2046	1,455,000	1,485,000
2047	1,515,000	1,545,000
2048	1,575,000	1,610,000
2049	1,640,000	1,675,000
2050	1,705,000 (maturity)	

Optional Redemption. Except as otherwise described in the following paragraph, the Issue 2019-3 Bonds maturing on and after July 1, 2029, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after January 1, 2029, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

The PAC Bonds are subject to redemption at the option of THDA prior to their maturity, either as a whole or in part, at any time on or after January 1, 2029, at the Redemption Prices set forth below (expressed as a percentage of the principal amount to be redeemed) plus accrued interest to the date of redemption:

<u>Redemption Period</u>	<u>Redemption Price</u>
January 1, 2029 to June 30, 2029	101.099 %
July 1, 2029 to December 31, 2029	100.632
January 1, 2030 to June 30, 2030	100.171
July 1, 2030 and thereafter	100.000 %

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2019-3 Principal Payments (as defined below). Any Excess 2019-3 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing July 1, 2020; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2019-3 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds are equal to or less than 400% PSA (as defined below under “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds”), as determined by THDA, then available Excess 2019-3 Principal Payments shall first be applied to redeem PAC Bonds up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds are in excess of 400% PSA, as determined by THDA, then available Excess 2019-3 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds shall first be applied to redeem PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an “Excess Principal PAC Bond Redemption”); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2019-3 Principal Payments which is in excess of 400% PSA, and (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds’ proportionate amount of all Issue 2019-3 Bonds then Outstanding.

“Excess 2019-3 Principal Payments” means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

“Planned Amortization Amount” means the dollar amount applicable to the PAC Bonds for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the PAC Bonds assumed to be redeemed from Excess 2019-3 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds. See “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds” for a description of PSA prepayment rates.

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The Planned Amortization Amounts for the PAC Bonds (which assume the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedules

<u>Date</u>	<u>PAC Bonds Planned Amortization Amount</u>
July 1, 2020	\$ 675,000
January 1, 2021	2,210,000
July 1, 2021	4,620,000
January 1, 2022	7,855,000
July 1, 2022	11,835,000
January 1, 2023	16,195,000
July 1, 2023	20,420,000
January 1, 2024	24,460,000
July 1, 2024	28,315,000
January 1, 2025	32,000,000
July 1, 2025	35,510,000
January 1, 2026	38,850,000
July 1, 2026	42,030,000
January 1, 2027	45,050,000
July 1, 2027	47,920,000
January 1, 2028	50,635,000
July 1, 2028	53,205,000
January 1, 2029	55,635,000
July 1, 2029	57,920,000
January 1, 2030	60,070,000
July 1, 2030	60,500,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the PAC Bonds are redeemed from amounts on deposit in the Issue 2019-3 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds.”

Special Optional Redemption of the Offered Bonds, including Cross Calls. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading “DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds”; (ii) except as otherwise described under the headings “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and “ – Mandatory Redemption – 10 Year Rule”, repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, “Code”), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds”, and (b) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bonds to exceed the Planned Amortization Amount shown above in the PAC Bonds Amortization Schedule. The Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph. See “ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments” and “ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices”.

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof financed with proceeds of the Offered Bonds (directly, or through a series of refundings) shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the related Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedule only if there are no other Offered Bonds outstanding.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans (or portions thereof) financed with proceeds of the Offered Bonds, in accordance with the following approximate 10 year rule percentages, all to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Prepayments and Repayments Receipt Periods</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
September 30, 2019 to October 31, 2020	0.19 %
November 1, 2020 to March 31, 2021	0.66
April 1, 2021 to October 31, 2021	1.77
November 1, 2021 to April 30, 2023	2.43
May 1, 2023 to April 30, 2024	5.73
May 1, 2024 to October 31, 2024	6.83
November 1, 2024 to May 31, 2025	7.60
June 1, 2025 to September 30, 2025	8.92
October 1, 2025 to April 30, 2026	9.67
May 1, 2026 to September 30, 2026	10.37
October 1, 2026 to February 28, 2027	11.03
March 1, 2027 to May 31, 2027	11.37
June 1, 2027 to August 31, 2027	12.61
September 1, 2027 to February 29, 2028	13.56
March 1, 2028 to August 31, 2028	14.59
September 1, 2028 to August 31, 2029	15.52
September 1, 2029 and thereafter	100.00 %

THDA will redeem the Offered Bonds in accordance with these schedules to the extent required to comply with the Code. THDA reserves the right to modify these schedules at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory redemption on May 1, 2020, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2019-3 Bonds Subaccount of the Loan Fund on April 1, 2020, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2019-3 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on March 1, 2023, to the extent any amounts remain on deposit in the Issue 2019-3 Bonds Subaccount of the Loan Fund on February 1, 2023.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding.

Selection By Lot

If less than all of the Issue 2019-3 Bonds of like maturity are to be redeemed, the particular Issue 2019-3 Bonds of such maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2019-3 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 150,000,000.00
Premium on PAC Bonds	6,459,585.00
TOTAL SOURCES	<u>\$ 156,459,585.00</u>

USES

Deposit to Loan Fund	\$ 151,000,000.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,000,000.00
Deposit to Bond Reserve Fund	3,291,006.75
Costs of Issuance	269,000.00
Underwriters' Fee	899,578.25
TOTAL SOURCES	<u>\$ 156,459,585.00</u>

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance

of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumption that THDA originates approximately \$151,000,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 3.865%. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2019-3 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA, including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" for descriptions of the various Program Loan products and Appendix G "RESIDENTIAL FINANCE PROGRAM LOAN ORIGINATING AND SERVICING PROCEDURES" for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2019-3 Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 3.865% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2019-3 Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2019-3 Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on July 22, 2019. As of the close of business on August 26, 2019, THDA has committed a total principal amount of approximately \$27,000,000 of Program Loans and has purchased approximately \$21,000,000 outstanding principal balance of loans, all of which are Great Choice Program Loans and Homeownership for the Brave Program Loans that will be allocated to the Offered Bonds. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans". Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

The United States Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) in 2010, and may pass additional legislation impacting the origination and servicing of mortgage loans. Likewise, the Tennessee General Assembly may enact legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA’s single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA’s activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA’s single-family loans could adversely affect the THDA’s ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” “- Special Optional Redemption of the Offered Bonds, including Cross Calls” and “- Mandatory Redemption – 10-Year Rule”.

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds.”

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA’s general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA’s current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA's determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D "2013 GENERAL RESOLUTION" for a description of Program Expenses. THDA expects to use funds on deposit in the Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters' fees, initial Trustee's fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee's fees, servicing release premiums, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see "THDA – THDA Funds". THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum; and (iii) funds on deposit in the Issue 2019-3 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term "weighted average life" refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term "prepayment" includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association ("PSA")) prepayment standard or model (commonly referred to as the "PSA Prepayment Model").

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, “0% PSA” assumes no prepayments of principal on the Program Loans. “25% PSA” assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. “50% PSA” assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. “75% PSA” assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. “100% PSA” assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. “200% PSA” assumes the principal of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. “300% PSA” assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “400% PSA” assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “500% PSA” assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors’ housing needs, job transfers, unemployment and mortgagors’ net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under “Changes in Federal or State Law” above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds”, and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2019-3 Bond Subaccount of the Loan Fund is applied to finance Program Loans, (ii) Excess 2019-3 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iii) the PAC Bonds will be redeemed only in the Planned Amortization Amounts as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds” and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>PAC Bond Average Life (in years)</u>
0%	18.4
25	13.5
50	9.0
75	6.7
100	5.5
200	5.5
300	5.5
400	5.5
500	3.4

RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

As of July 31, 2019, THDA has issued \$2,758,805,000 total original principal amount of bonds under the General Resolution, of which \$2,178,820,000 (unaudited) were outstanding as of July 31, 2019, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding as of July 31, 2019 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$ 78,410,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	56,125,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	74,485,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	91,340,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	98,740,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	121,940,000	3.25
Issue 2016-1	May 18, 2016	125,000,000	98,605,000	2.68
Issue 2016-2	October 18, 2016	125,000,000	102,495,000	2.68
Issue 2016-3	November 17, 2016	62,000,000	35,165,000	2.97
Issue 2017-1	March 30, 2017	100,000,000	84,945,000	3.15
Issue 2017-2	June 27, 2017	175,000,000	152,445,000	2.94
Issue 2017-3	September 28, 2017	99,900,000	94,810,000	3.03
Issue 2017-4	December 19, 2017	99,900,000	94,110,000	2.90
Issue 2018-1	March 29, 2018	99,900,000	96,015,000	3.33
Issue 2018-2	June 12, 2018	160,000,000	155,505,000	3.37
Issue 2018-3	September 6, 2018	149,900,000	147,675,000	3.47
Issue 2018-4	November 15, 2018	225,000,000	221,205,000	3.58
Issue 2019-1	March 21, 2019	175,000,000	174,805,000	3.34
Issue 2019-2	June 27, 2019	200,000,000	200,000,000	2.58
TOTAL		<u>\$ 2,758,805,000</u>	<u>\$ 2,178,820,000</u>	

(1) Bond yield.

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Origination Experience

THDA's experience from May 30, 2013, to July 31, 2019 (unaudited), regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

<u>Issue of Bonds</u>	<u>Lendable Proceeds⁽²⁾</u>	<u>Program Loans Financed⁽³⁾ as of July 31, 2019</u>		<u>Weighted Average Interest Rate⁽⁴⁾</u>
		<u>Amount</u>	<u>%</u>	
Issue 2013-1	\$ 136,268,395	\$ 136,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	92,340,000	92,340,000	100.00	3.98
Issue 2016-2	91,685,000	91,685,000	100.00	3.87
Issue 2017-1	102,200,000	102,200,000	100.00	4.15
Issue 2017-2	128,090,000	128,090,000	100.00	4.61
Issue 2017-3	90,500,000	90,500,000	100.00	4.62
Issue 2017-4	75,660,000	75,660,000	100.00	4.40
Issue 2018-1	102,600,000	102,600,000	100.00	4.39
Issue 2018-2	143,525,000	143,525,000	100.00	4.61
Issue 2018-3	151,916,000	151,916,000	100.00	4.61
Issue 2018-4	211,450,000	211,450,000	100.00	4.67
Issue 2019-1	162,700,000	162,700,000	100.00	4.67
Issue 2019-2	170,950,000	137,403,590	80.38	4.82
TOTAL	\$ 2,235,684,875	\$ 2,202,138,306		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on July 22, 2019. As of the close of business on August 26, 2019, THDA has committed a total principal amount of approximately \$27,000,000 of Program Loans and has purchased approximately \$21,000,000 outstanding principal balance of loans, that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing the Offered Bonds, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. As of May 27, 2019, the THDA Household Income Limits range from \$64,500 to \$112,000 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution

requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2019-3 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance. While the Issue 2019-3 Supplemental Resolution provides that Program Loans, or participations therein, to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. On and after October 1, 2013, the THDA primary loan program has included Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. Since October 1, 2013, THDA has provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below. As of March 1, 2017, THDA began providing additional downpayment and closing cost assistance through its Hardest Hit Fund Down Payment Assistance program as described below.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 3.875%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans.

Great Choice Plus Loans currently being made are thirty year, 0% interest rate, second lien loans in a principal amount up to 5% of the purchase price of the property purchased. No monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan, provided, however, that the full original principal amount will be forgiven at the end of the thirty year term. THDA began making Great Choice Plus Loans with these terms as of October 3, 2016.

Prior to October 3, 2016, Great Choice Plus Loans were made with the following terms: From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans with a principal amount equal to 4% of the purchase

price of the property purchased. From October 1, 2014, to September 30, 2016, Great Choice Plus Loans were 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, the Great Choice Plus loans with these terms will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. These Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA. THDA does not expect that Great Choice Plus loans will be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

Hardest Hit Fund Down Payment Assistance

In March 2017, THDA began providing \$15,000 in downpayment assistance from the fifth round of federal Hardest Hit Fund funding ("HHF-DPA") to eligible borrowers who qualify for THDA Great Choice loans and who are purchasing existing homes in an approved ZIP Code in Tennessee. HHF-DPA is secured by a second deed of trust for a ten year term. HHF-DPA does not bear interest, and there are no monthly payments, but it is due on sale. HHF-DPA is forgiven at 20% per year in years six through ten. A THDA approved Homebuyer Education course is also required. As of August 7, 2019, all funds for HHF-DPA were exhausted.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans are serviced by the Federation of Appalachian Housing Enterprises, Inc., as of January 1, 2015. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. As of December 1, 2016, the maximum loan amount was increased to \$123,750 for Maury, Williamson, Davidson, Rutherford, Wilson and Sumner Counties. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable.

As of June 30, 2019 (unaudited), 131 New Start Program Loans, with an aggregate principal balance of approximately \$6,008,150, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction. Eligible borrowers will also be eligible for Great Choice Plus loans.

As of June 30, 2019 (unaudited), 465 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$56,932,637, were outstanding under the General Resolution. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became transferred program loans allocable to the Issue 2013-1 Bonds under the General Resolution.

As of June 30, 2019 (unaudited), 145 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$7,492,190, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers prior to October 1, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds. THDA also provided downpayment and closing cost assistance in the form of a grant in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made.

As of June 30, 2019 (unaudited), 2,549 Great Rate, 172 Great Advantage, and 1,718 Great Start Program Loans, with an aggregate principal balance of approximately \$342,824,885, were outstanding under the General Resolution. THDA no longer makes loans of this type.

START Program Loans

From September 1993 to December 1998, THDA offered the Special Targeted Affordable Rate for Tennessee Program (the "START Program") using recycled prepayments received under the 1974 General Resolution and certain bond proceeds from bonds issued under the 1974 General Resolution and the 1985 General Resolution; through a series of refundings, certain START Program Loans are allocated to the General Resolution. First lien START Program Loans under the General Resolution had a 5.5% interest rate, were made to borrowers who earned \$17,000 or less per year and who purchased their first home for \$44,000 or less. After October 1, 1997, borrowers who earned \$18,500 or less per year and who purchased their first home for \$47,500 or less were eligible for first lien START Program Loans at a 5.5% interest rate. Except for the more restrictive income and acquisition cost limitations, all other requirements of THDA's Homeownership Program applied.

As of June 30, 2019 (unaudited), 407 START Program Loans having an aggregate principal balance of approximately \$5,292,211 were outstanding under the General Resolution. THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of June 30, 2019 (unaudited), 19,521 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$2,089,150,280 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 317 months and an approximate weighted average interest rate of 4.58%.

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Program Loans By Type of Insurance or Guarantee

The following table summarizes, as of June 30, 2019 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured	16,668	\$ 1,851,434,730	85.38 %	88.62 %
VA Guaranteed	410	45,855,585	2.10	2.19
Privately Insured	630	50,889,047	3.23	2.44
USDA/RD Guaranteed	1,057	89,299,285	5.41	4.27
Uninsured ⁽²⁾	756	51,671,634	3.87	2.47
TOTAL	19,521	\$ 2,089,150,280 ⁽⁴⁾	100.00 %⁽⁴⁾	100.00 %⁽⁴⁾

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution, either upon their direct transfer to the General Resolution or upon the refunding of other THDA obligations, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of June 30, 2019 (unaudited), 630⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$50,889,047 were outstanding under the General Resolution. As of June 30, 2019 (unaudited), THDA had the following information regarding the private mortgage insurers for 628 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance⁽³⁾</u>	<u>Percent of Total Number of Program Loans⁽³⁾</u>	<u>Percent of Total Outstanding Balance of Program Loans⁽³⁾</u>
Arch MI ⁽²⁾	104	\$ 8,153,797	0.53 %	0.39 %
Genworth Mortgage Insurance Corp. (GE)	260	21,304,058	1.33	1.02
MGIC	221	18,125,219	1.13	0.87
Radian Guaranty Inc.	5	165,150	0.03	0.01
Republic Mortgage Insurance Corporation	38	2,963,825	0.19	0.14
TOTAL	628	\$ 50,712,049⁽⁴⁾	3.22 %⁽⁴⁾	2.43 %⁽⁴⁾

(1) The private mortgage insurer is not identified with respect to 2 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA began compiling data with respect to individual private mortgage insurance providers.

(2) Purchased United Guaranty Residential Insurance Co.

(3) Rounded figures.

(4) Rounded total.

Program Loan Interest Rates

The following table summarizes, as of June 30, 2019 (unaudited), the interest rates of the outstanding Program Loans:

<u>Mortgage Rates (%)</u>	<u>Number of Program Loans⁽¹⁾</u>	<u>Outstanding Balance⁽²⁾</u>	<u>Percent of Total Number of Program Loans⁽²⁾</u>	<u>Percent of Total Outstanding Balance⁽²⁾</u>
0.00-1.99	177	\$ 7,622,286	0.91 %	0.36 %
2.00-2.99	2	152,655	0.01	0.01
3.00-3.99	3,169	358,122,209	16.23	17.14
4.00-4.49	3,439	398,318,336	17.62	19.07
4.50-4.99	8,378	1,067,007,194	42.92	51.07
5.00-5.49	1,243	94,874,680	6.37	4.54
5.50-5.99	1,589	93,506,448	8.14	4.48
6.00-6.49	454	32,844,286	2.33	1.57
6.50-6.99	607	26,216,318	3.11	1.25
7.00-7.49	202	6,054,193	1.03	0.29
7.50-7.99	182	2,955,200	0.93	0.14
8.00-8.49	71	1,441,806	0.36	0.07
8.50-8.99	4	10,481	0.02	0.00
9.00-9.49	3	21,012	0.02	0.00
9.50-12.00	1	3,176	0.01	0.00
TOTAL	19,521	\$2,089,150,280⁽³⁾	100.00 %⁽³⁾	100.00 %⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process; Real Estate Owned by THDA

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have passed with no payment received by the last business day of the month in which the second payment was due are considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time

bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

THDA, through Volunteer Mortgage Loan Servicing, manages delinquencies by working with borrowers in an attempt to avoid defaults and by communicating directly with borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

Upon completion of the foreclosure process, THDA may hold title to properties previously financed by Program Loans ("Real Estate Owned"). THDA expects to sell Real Estate Owned or convey Real Estate Owned to the relevant insurer or guarantor of the underlying Program Loans. Sale proceeds or claims paid by the insurer or guarantor are deposited in the Debt Service and Expense account of the bond issue from which the foreclosed loan was originally funded. As of June 30, 2019, THDA held title to seventy-two (72) Real Estate Owned properties with a related Program Loan balance of approximately \$5,527,000.

Delinquencies and Foreclosures as of June 30, 2019

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.95%, based on a total of 19,521 Program Loans as of June 30, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2019, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2019

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	328	\$ 31,934,437	1.97%	0.86% ⁽⁴⁾
VA Guaranteed	4	377,923	0.98	0.77
Privately Insured	16	1,075,984	2.54	0.63 ⁽⁵⁾
USDA/RD Guaranteed.....	23	1,730,262	2.18	⁽⁶⁾
Uninsured.....	9	606,514	1.19	⁽⁶⁾
TOTAL	<u>380</u>	<u>\$ 35,725,119⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2019.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.10%, based on a total of 19,521 Program Loans as of June 30, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2019, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	712	\$ 71,411,894	4.27%	1.43% ⁽⁴⁾
VA Guaranteed	11	1,083,344	2.68	1.11
Privately Insured	32	2,631,783	5.08	0.87 ⁽⁵⁾
USDA/RD Guaranteed.....	31	2,187,689	2.93	(6)
Uninsured.....	15	916,774	1.98	(6)
TOTAL	801	\$ 78,231,483 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.27%, based on a total of 19,521 Program Loans as of June 30, 2019 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of June 30, 2019 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2019, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	42	\$ 4,497,248	0.25%	0.40% ⁽⁴⁾
VA Guaranteed	1	26,788	0.24	0.61
Privately Insured	3	333,886	0.48	0.35 ⁽⁵⁾
USDA/RD Guaranteed.....	5	341,706	0.47	(6)
Uninsured.....	1	74,107	0.13	(6)
TOTAL	52 ⁽⁷⁾	\$ 5,273,734 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

(7) Does not include Real Estate Owned property (See “-Delinquency and Foreclosure Process; Real Estate Owned by THDA”) above.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the five most recent years and for the nine months ended March 31, 2019, and March 31, 2018. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2018, 2017, 2016, 2015, and 2014, and from unaudited financial information of THDA for the nine months ended March 31, 2019, and March 31, 2018.

	Nine Months Ended March 31 (Unaudited)		Year Ended June 30 (Audited)				
<u>Residential Finance Bond Group</u>	<u>2019</u>	<u>2018</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES:							
Interest on Mortgages	\$ 58,512	\$ 45,551	\$ 62,297	\$ 49,298	\$ 36,426	\$ 25,393	\$ 13,518
Investment Income:							
Interest	3,355	2,244	3,152	1,617	2,011	1,866	335
Net Increase (decrease) in the Fair Value of Investments	3,058	(1,377)	(1,736)	(792)	(320)	(552)	(146)
Fees and Other Income	157	853	724	853	953	160	-
	<u>65,082</u>	<u>47,271</u>	<u>64,437</u>	<u>50,976</u>	<u>39,070</u>	<u>26,867</u>	<u>13,707</u>
EXPENSES:							
Interest	40,671	29,285	40,142	30,542	24,876	17,058	9,087
Issuance Cost	4,032	2,440	3,812	3,602	2,311	2,343	2,167
Mortgage Servicing Fees	421	3,523	4,748	3,857	2,967	2,048	980
Other	1,052	870	1,254	970	1,157	1,001	239
	<u>46,176</u>	<u>36,118</u>	<u>49,956</u>	<u>38,971</u>	<u>31,311</u>	<u>22,450</u>	<u>12,473</u>
Excess of Revenues over Expenses	18,906	11,153	14,481	12,005	7,759	4,417	1,234
Net Position at beginning of period	194,764	176,030	176,030	116,295	101,055	105,707	(68,279)
Other Transfers	19,853	5,579	4,253	47,730	7,481	(9,069)	172,752
Net Position at end of period	<u>\$ 233,523</u>	<u>\$ 192,762</u>	<u>\$ 194,764</u>	<u>\$ 176,030</u>	<u>\$ 116,295</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of July 31, 2019 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 20,631,637	\$ 50,408,700
Federal Home Loan Mortgage Corporation Notes	9,079,780	30,969,714
Fannie Mae Notes	0	10,166,710
Financing Corporation Bonds	2,145,100	0
United States Treasury Bonds	974,955	0
TOTAL	<u>\$ 32,831,472</u>	<u>\$ 91,545,124</u>

As of July 31, 2019 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 4,712,655	\$ 31,669,713
Federal Home Loan Mortgage Corporation Notes	99,820	14,630,308
Fannie Mae Notes	0	8,941,609
United States Treasury Bonds	974,955	0
TOTAL	<u>\$ 5,787,430</u>	<u>\$ 55,241,630</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2022.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of July 31, 2019 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$2,533,780,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board

member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Tre Hargett ⁽¹⁾	January, 2021	Secretary of State
Michael L. Hedges, Chairman	June 30, 2021	Retired, Pleasant View, TN
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
John Krenson	June 30, 2020	CEO, Operation Stand Down Nashville, TN
David H. Lillard, Jr. ⁽¹⁾	January, 2021	State Treasurer
Stuart McWhorter ⁽¹⁾	(2)	Commissioner, Department of Finance and Administration
Erin Merrick ⁽¹⁾	(2)	Deputy Counsel to the Governor
Austin McMullen	June 30, 2023	Member, Bradley Arant Boult Cummings LLP Nashville, TN
Christine Rhea	June 30, 2023	President, Mortgage Investors Group Knoxville, TN
Rick Neal	June 30, 2023	Senior Vice President, Pinnacle Financial Partners Memphis, TN
John K. Snodderly	June 30, 2023	Executive Director, LaFollette Housing Authority LaFollette, TN
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Justin Wilson ⁽¹⁾	January, 2021	Comptroller of the Treasury
Daisy Fields	(3)	Gallatin, TN

(1) Ex officio member.

(2) Serves at pleasure of the Governor.

(3) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 260 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Administration since 2018. THDA employee since 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Operating Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010). B.S., Middle Tennessee State University.

Trebia Johns – Director of Mortgage Loan Servicing since February, 2019. THDA employee since 2016. Formerly, Ingram Industries, Nashville, Tennessee (2016); Green Tree Servicing, Goodlettsville, TN (1991-2015).

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Conners & Berry (currently Bradley Arrant Boulton Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999); Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the "State") amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

Additionally, as of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ended June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees. Information about TCRS is available on the Tennessee Department of Treasury website at www.treasury.tn.gov/tcrs.

The TCRS covers three (3) large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 59,805 active members in TCRS in the state and higher education employee group at June 30, 2018. This total includes 260 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation for the defined benefit plan or contributions to a defined contribution plan.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age sixty (60) or thirty (30) years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute 5% of salary to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee

opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with an overall 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The defined benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age sixty-five (65) or the rule of ninety (90) (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities. Effective July 1, 2018, all future stabilization reserve contributions are held in a separate trust outside of TCRS for the benefit of each employer that participates in the stabilization reserve trust. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan, requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for the Defined Benefit Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute to TCRS at the rates shown below based on salary. General state employees do not contribute to this plan.

Legacy Retirement Plan

Actuary Study performed as of date	6/30/2017	6/30/2018
Contribution Period	7/1/18-6/30/19	7/1/19-6/30/20
General State Employee	19.23%	19.66%
Public Safety Officer	22.72%	23.34%
Judicial Employee	25.55%	25.55%
Consolidated State Employee Rate	19.36%	19.80%

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2019 (measurement date of June 30, 2018), the net pension liability for the state and higher education employee group based on the market value of assets was \$1.62 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 90.26%.

Actuarial Data for the Defined Benefit Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, an actuarial valuation is performed to determine the total employer contribution rate as well as the actuarially determined contribution (ADC) and the stabilization reserve rate shown below. General state employees contribute 5% to this plan.

Hybrid Retirement Plan

Actuary Study performed as of date	6/30/2017	6/30/2018
Contribution Period	7/1/18-6/30/19	7/1/19-6/30/20
General State Employee		
Actuarially Determined Contribution Rate (ADC)	1.66%	1.73%
Stabilization Reserve Trust Rate (SRT)	2.29%	2.23%
Total General State Employee Rate	3.95%	3.96%
Public Safety Officer	4.80%	4.80%
Judicial Employee	7.31%	7.31%
Consolidated State Employee Rate	4.00%	4.00%

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2019 (measurement date of June 30, 2018), the net pension asset for the state and higher education employee group based on the market value of assets was \$38.6 million, resulting in a plan fiduciary net position as a percentage of total pension liability of 132.39%.

THDA Employer Contributions for Pensions (Defined Benefit and Defined Contribution Plan)

For THDA, the employer contribution rate for employees hired before July 1, 2014, stated as a percentage of salary, is as follows: 19.23% and 19.66% for the period July 1, 2018 through June 30, 2019 and for the period July 1, 2019 through June 30, 2020, respectively. For employees first hired after June 30, 2014, the employer rate is 8.95% for the period July 1, 2018 through June 30, 2019 and 8.96% for the period July 1, 2019 through June 30, 2020 (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions for the pension plans are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	THDA Employer Contributions to DC (Open Plan)	Percentage of THDA Budget
2020 ⁽¹⁾	19.66/9.00% ⁽²⁾	\$ 19,305,900 ⁽¹⁾	\$ 2,523,399 ⁽¹⁾	\$ 275,466 ⁽¹⁾	2.28% ⁽¹⁾
2019	19.23/9.00% ⁽²⁾	16,031,733	2,026,516	347,409	2.14
2018	18.87/9.00% ⁽²⁾	14,498,364	1,945,832	262,903	1.97
2017	15.02/9.00 ⁽²⁾	13,396,776 ⁽³⁾	1,577,092	183,030	1.53
2016	15.03/9.00 ⁽²⁾	11,965,554	1,581,407	100,999	1.38
2015	15.02/9.00 ⁽²⁾	11,569,902	1,673,881	28,731	1.21
2014	15.03	11,721,300	1,761,711		1.19
2013	15.03	11,315,872	1,692,847		1.26
2012	14.91	11,005,204	1,632,095		1.36
2011	14.91	10,593,944	1,585,654		1.25

(1) Estimated; final amount anticipated to be lower due to unfilled positions, staff turnover and salaries at less than the maximum permitted.

(2) Varies depending on plan the employee is enrolled in.

(3) The increase in "Total Salary of THDA Employees" from the actual amount for the fiscal year ended June 30, 2017, to the actual amount for the fiscal years ended June 30, 2018, and June 30, 2019, is due to the additional salaries for approximately forty-seven (47) positions THDA has filled and an additional six (6) positions THDA expects to fill in connection with the servicing activities THDA is undertaking through Volunteer Mortgage Loan Servicing.

For the fiscal year ended June 30, 2018, the salary of THDA employees totaled \$14,498,364, which represents 0.48% of the \$3.0 billion of salary for all state and higher education employees in TCRS.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

General Information about the 401(k) and 457 Defined Contribution Plans

The state provides additional voluntary defined contribution plans to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Employee contribution limits to the 401(k) and 457 plans are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA. The THDA contribution for the fiscal year ended June 30, 2018 was \$75,204.37.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 74 and 75) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of July 1, 2017, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used an entry age normal actuarial cost method, indicates that for the fiscal year ended June 30, 2018, the total unfunded actuarial liability of THDA is \$3,577,602 and the fiscal year 2018 OPEB expense for THDA is \$274,165. The current OPEB report for the Employee Group OPEB Plan may be reviewed at <https://www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-opeb.html>. The State did not pre-fund any actuarially determined OPEB liability, and continued to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for fiscal year ended June 30, 2018. The State charged THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that interest on the Issue 2019-3 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals under the alternative minimum tax provisions of the Code.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income", taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a "Premium Bond") over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or otherwise prevent beneficial owners of the Issue 2019-3 Bonds from realizing the full current benefit of the tax status of such interest, or adversely affect the market value of the Issue 2019-3 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Issue 2019-3 Bonds. Purchasers of the Issue 2019-3 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The

opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Issue 2019-3 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation, regulatory initiatives or litigation.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

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

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 as promulgated on the issue date of the Issue 2019-3 Bonds by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Rule"), THDA, in

the Issue 2019-3 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2019-3 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MRSB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material; (xv) incurrence of a financial obligation of THDA, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of THDA, any of which affect bondholders, if material; and (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of THDA, any of which reflect financial difficulties.

For the purposes of the events identified in clauses (xv) and (xvi) above, the term "financial obligation" means: (A) a debt obligation; (B) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) a guarantee of (A) or (B). The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2019-3 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2019-3 Supplemental Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the

effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2019-3 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2019-3 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MRSB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2018, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the nine months ended March 31, 2019. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

Raymond James & Associates, Inc., Citigroup Global Markets Inc., RBC Capital Markets, LLC, J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and Wiley Brothers—Aintree Capital, LLC (collectively, the "Underwriters") have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$899,578.25. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective

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

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Offered Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Offered Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Offered Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Offered Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

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MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

Michael L. Hedges

Chair

Ralph M. Perrey

Executive Director



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, the schedule of proportionate share of the collective total other postemployment benefit liability for the Closed State Employee Group OPEB Plan, and the schedule of proportionate share of the collective total other postemployment benefit liability for the Closed Tennessee OPEB Plan, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic

financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.

A handwritten signature in dark ink, appearing to read "Deborah Loveless", is positioned above the printed name and title.

Deborah V. Loveless, CPA, Director
Division of State Audit
December 11, 2018

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2018

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2018, with comparative information presented for the fiscal year ended June 30, 2017. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

Introduction – The Tennessee Housing Development Agency

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2018, THDA has originated over 120,400 single-family mortgage loans in its 45-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 70 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 385 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated*, Section 13-23-105). This board meets regularly on a bimonthly basis; however, some committees may meet more often as situations dictate.

Overview of the Financial Statements

The basic financial statements include statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows, as well as notes to the financial statements. The statement of net position provides financial information on the overall financial position of THDA at each year end. The statement of revenues, expenses, and changes in net position summarizes the results of operations over the course of each fiscal year. The statement of cash flows provides relevant information about THDA's cash receipts and cash payments during each fiscal year.

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discretely presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <https://www.tn.gov/finance/fa/fa-accounting-financial/fa-acffin-cafr.html>.

During fiscal year 2018, THDA implemented accounting standard GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The Statement establishes new accounting and financial reporting procedures for postemployment benefits other than pensions. Implementation of this Statement resulted in a revision of THDA's Net Position as of July 1, 2017, which has been reported as a Prior Period Adjustment.

Financial Highlights

Year Ended June 30, 2018

- Total assets increased by \$164.7 million, or 6.4%.
- Total liabilities increased by \$164.8 million, or 8.0%.
- Net position was \$509.9 million. This is an increase of \$1.7 million, or 0.34%, from fiscal year 2017 net position (as adjusted).
- Cash and cash equivalents decreased by \$86.2 million, or 23.4%.
- Total investments increased by \$54.1 million, or 26.2%.
- Bonds payable increased by \$148.3 million, or 7.5%.
- THDA originated \$463.4 million in new loans, which is an increase of \$137.6 million, or 42.2%, from the prior year.

Financial Analysis of the Agency

Net Position – The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	2018	2017
Current assets	\$ 406,809	\$ 427,265
Capital assets	2,876	1,809
Other noncurrent assets	2,330,505	2,146,413
Total assets	2,740,190	2,575,487
Deferred outflows of resources	4,609	4,726
Current liabilities	170,949	185,772
Noncurrent liabilities	2,063,595	1,883,961
Total liabilities	2,234,544	2,069,733
Deferred inflows of resources	365	514
Invested in capital assets	2,876	1,809
Restricted net position	438,516	430,633
Unrestricted net position	68,498	77,524
Total net position	\$ 509,890	\$ 509,966

2018 to 2017

First and second mortgage loans receivable (net of allowance for forgivable second mortgages) increased by \$188.5 million. During fiscal year 2018, single-family mortgage loan originations increased by \$137.6 million, whereas mortgage loan payoffs increased by \$20.6 million and mortgage loan repayments increased \$3.6 million. In addition, THDA recognized an allowance for future uncollectable forgivable second mortgages of \$14.0 million for fiscal year 2018.

Total liabilities increased \$164.8 million. The increase is primarily due to a \$148.3 million increase of bonds payable at June 30, 2018, as compared to June 30, 2017.

Changes in Net Position – The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	2018	2017
Operating revenues		
Mortgage interest income	\$ 90,105	\$ 87,963
Investment income	2,738	1,743
Other	20,482	18,546
Total operating revenues	113,325	108,252
Operating expenses		
Interest expense	58,239	56,892
Other	45,368	41,980
Total operating expenses	103,607	98,872
Operating income	9,718	9,380
Nonoperating revenues (expenses)		
Grant revenues	317,326	277,877
Grant expenses	(325,340)	(288,223)
Total nonoperating revenues (expenses)	(8,014)	(10,346)
Change in net position	\$ 1,704	\$ (966)

2018 to 2017

Total operating revenues increased \$5.1 million, primarily due to an increase in mortgage interest income of \$2.1 million and federal grant administration fees of \$1.5 million. During fiscal year 2018, certain long-term investments with high interest yields matured, which were re-invested into other investments having contemporary investment yields. In addition, fair value of investments decreased by \$4.2 million in fiscal year 2018.

Total operating expenses increased \$4.7 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate, and an increase in salary and benefits expense.

Nonoperating grant revenues increased \$39.5 million and nonoperating grant expenses increased \$37.1 million. The increases are due to the first full year of implementation of the down payment assistance program during fiscal year 2018.

Debt Activity – Bonds outstanding at June 30 were as follows (expressed in thousands):

	2018	2017
Bonds payable	\$2,128,712	\$1,980,456

Year Ended June 30, 2018

Total bonds payable increased \$148.3 million, which is deemed an insignificant year-over-year variance primarily attributable to an increase in mortgage loan production. During the fiscal year, THDA issued debt totaling \$459.7 million, with activity arising from four bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$34.6 million of outstanding bonds into new bond originations with lower interest rates. In addition to the nominal tax-exempt mortgage revenue bonds issued, THDA also issued one taxable bond issue in fiscal year 2017 primarily for economic refunding opportunities.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard and Poor's (S&P), a division of The McGraw-Hill Companies, Inc., has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

Debt Limits

In accordance with *Tennessee Code Annotated*, Section 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

Grant Programs

During fiscal year 2007 through fiscal year 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors allocated additional THDA funds for grants. These funds established a grant program that was titled by THDA the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

	2018	2017	2016 and Prior	Total
Funding Sources:				
THDA	\$7,500,000	\$7,500,000	\$67,300,000	\$82,300,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	\$7,500,000	\$7,500,000	\$71,650,000	\$86,650,000
Approved Uses:				
Rural repair program (USDA)	\$ -	\$ -	\$ 6,300,000	\$ 6,300,000
Ramp Programs & Hsg Modification	300,000	300,000	1,350,000	1,950,000
Emergency Repairs	2,700,000	2,700,000	18,500,000	23,900,000
Competitive Grants	3,500,000	3,500,000	37,600,000	44,600,000
Rebuild & Recover	500,000	500,000	3,300,000	4,300,000
Other Grants	500,000	500,000	4,600,000	5,600,000
Totals	\$7,500,000	\$7,500,000	\$71,650,000	\$86,650,000

Current Mortgage Products and Environment

THDA offers a variety of mortgage loan products to address the needs of Tennesseans across the State. The Great Choice loan program offers THDA the opportunity to offer a more competitive interest rate on its 30-year fixed rate mortgage product while still offering down payment assistance with the addition of the Great Choice Plus loan program, which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the Great Choice Plus loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15. Subsequently, in October of 2016, the Great Choice Loan product was revised to feature a 30-year forgiveness requirement, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced or otherwise paid in full within the first 30 years of closing.

A special interest rate reduction on the Great Choice loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as “Homeownership for the Brave,” provides a 0.5% rate reduction on the current interest rate for Great Choice loans. In addition to the rate reduction, Homeownership for the Brave applicants are eligible for optional down payment and closing cost assistance through the Great Choice Plus second mortgage loan at a 0% interest rate.

All first mortgage loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages, interest-only mortgages, “buy-down” loans, mortgages with a future lump-sum payment due (balloon-type mortgages), or with other similar mortgage terms. THDA does not make or purchase “sub-prime” mortgage loans.

Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by S&P. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have LTV ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's Internet site at <https://thda.org/homebuyers/homebuyers>.

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2018, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principal Amount Outstanding	Percentage ¹
60 – 89 Days Past Due	24,287	513	\$ 43,223,463	2.11%
90+ Days Past Due	24,287	1,200	95,172,207	4.94%
In Foreclosure	24,287	187	13,686,607	0.77%

Economic Factors

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a benchmark, THDA uses the one-, three- and five-year Constant Maturity Treasury rates as established by the United States Treasury.

¹ Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

The continuation of relatively low interest rates from a historic perspective increases the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

Direct Loan Servicing

During FY 2017, THDA commenced the direct servicing of mortgage loans under the name of Volunteer Mortgage Loan Servicing ("VMLS"). On November 1, 2016, the servicing of approximately 1,800 THDA mortgage loans having an outstanding principal balance of \$91.5 million was transferred to VMLS from an existing THDA mortgage servicer. In FY 2018, THDA began directly servicing the flow-business of new mortgage loans.

Contacting THDA's Financial Management

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report or need additional financial information, contact Trent Ridley, Chief Financial Officer, at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2018
(Expressed in Thousands)

ASSETS

Current assets:		
Cash and cash equivalents (Note 2)	\$	216,191
Investments (Note 2)		83,879
Receivables:		
Accounts		839
Interest		11,155
First mortgage loans		59,768
Due from federal government		<u>34,977</u>
Total current assets		<u>406,809</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		66,553
Investments (Note 2)		127,812
Investment interest receivable		790
Investments (Note 2)		48,595
First mortgage loans receivable		2,058,402
Second mortgage loans receivable		38,108
Allowance for uncollectable second mortgages		(14,031)
Unearned service release premiums		1,106
Advance to local government		3,135
Net pension asset (Note 5)		35
Capital assets:		
Furniture and equipment		5,108
Less accumulated depreciation		<u>(2,232)</u>
Total noncurrent assets		<u>2,333,381</u>
Total assets		<u>2,740,190</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refundings	441
Deferred outflows related to pensions (Note 5)	3,931
Deferred outflows related to OPEB (Note 9)	<u>237</u>
Total deferred outflows of resources	<u>4,609</u>

LIABILITIES

Current liabilities:	
Accounts payable	15,875
Accrued payroll and related liabilities	680
Compensated absences	736
Due to primary government	91
Interest payable	32,181
Escrow deposits	2,719
Prepayments on mortgage loans	1,205
Due to federal government	29,517
Bonds payable (Note 3)	<u>87,945</u>
Total current liabilities	<u>170,949</u>
Noncurrent liabilities:	
Bonds payable (Note 3)	2,040,767
Compensated absences	630
Net pension liability (Note 5)	7,659
Net OPEB liability (Note 9)	3,578
Escrow deposits	10,596
Arbitrage rebate payable	<u>365</u>
Total noncurrent liabilities	<u>2,063,595</u>
Total liabilities	<u>2,234,544</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 5)	228
Deferred inflows related to OPEB (Note 9)	<u>137</u>
Total deferred inflows of resources	<u>365</u>

NET POSITION

Net investment in capital assets	2,876
Restricted for single family bond programs (Note 4 and Note 7)	423,248
Restricted for grant programs (Note 4)	12,080
Restricted for Homebuyers Revolving Loan Program (Note 4)	3,153
Restricted for net pension asset (Note 5)	35
Unrestricted (Note 7)	<u>68,498</u>
Total net position	<u>\$ 509,890</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

OPERATING REVENUES

Mortgage interest income	\$ 90,105
Investment income:	
Interest	7,025
Net (decrease) in the fair value of investments	(4,287)
Federal grant administration fees	15,279
Fees and other income	5,203
Total operating revenues	<u>113,325</u>

OPERATING EXPENSES

Salaries and benefits	20,177
Contractual services	6,214
Materials and supplies	1,436
Rentals and insurance	12
Other administrative expenses	836
Other program expenses	5,572
Interest expense	58,239
Mortgage service fees	6,833
Issuance costs	3,812
Depreciation	476
Total operating expenses	<u>103,607</u>
Operating income	<u>9,718</u>

NONOPERATING REVENUES (EXPENSES)

Federal grants revenue	317,323
Other grants revenue	3
Federal grants expenses	(317,388)
Local grants expenses	(7,952)
Total nonoperating revenues (expenses)	<u>(8,014)</u>
Change in net position	<u>1,704</u>
Total net position, July 1	509,966
Cumulative effect of a change in accounting principle (Note 12)	(1,780)
Total net position, July 1, as restated	508,186
Total net position, June 30	<u>\$ 509,890</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 373,400
Receipts from federal government	15,030
Receipts from other funds	2,740
Other miscellaneous receipts	5,203
Acquisition of mortgage loans	(463,417)
Payments to service mortgages	(7,939)
Payments to suppliers	(16,471)
Payments to federal government	(1,490)
Payments to other funds	(2,740)
Payments to or for employees	(20,844)
Net cash used by operating activities	(116,528)
Cash flows from non-capital financing activities:	
Operating grants received	314,000
Proceeds from sale of bonds	469,989
Operating grants paid	(319,857)
Call premium paid	(14)
Cost of issuance paid	(3,812)
Principal payments	(314,725)
Interest paid	(62,486)
Net cash provided by non-capital financing activities	83,095
Cash flows from capital and related financing activities:	
Purchases of capital assets	(1,542)
Net cash used by capital and related financing activities	(1,542)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	203,470
Purchases of investments	(262,517)
Investment interest received	7,151
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	693
Net cash used by investing activities	(51,203)
Net decrease in cash and cash equivalents	(86,178)
Cash and cash equivalents, July 1	368,922
Cash and cash equivalents, June 30	\$ 282,744

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

Reconciliation of operating income to net cash used by operating activities:	
Operating income	\$ <u>9,718</u>
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	476
Changes in assets and liabilities:	
Decrease in accounts receivable	154
Decrease in mortgage interest receivable	341
(Increase) in pension asset	(2)
(Increase) in deferred pension outflows	(67)
Decrease in deferred OPEB outflows	4
(Increase) in mortgage loans receivable	(188,470)
(Increase) in due from federal government	(249)
Increase in accounts payable	4,883
(Decrease) in unearned service release premiums	(1,106)
Increase in accrued payroll / compensated absences	100
(Decrease) in due to primary government	(632)
(Decrease) in arbitrage rebate liability	(745)
Increase in pension liability	7
(Decrease) in OPEB liability	(104)
(Decrease) in deferred pension inflows	(286)
Increase in deferred OPEB inflows	137
Investment income included as operating revenue	(2,738)
Interest expense included as operating expense	58,239
Issuance cost included as operating expense	<u>3,812</u>
Total adjustments	<u>(126,246)</u>
Net cash used by operating activities	\$ <u><u>(116,528)</u></u>
Noncash investing, capital, and financing activities:	
(Decrease) in fair value of investments	\$ <u>(4,821)</u>
Total noncash investing, capital, and financing activities	\$ <u><u>(4,821)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Notes to the Financial Statements
June 30, 2018

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee Housing Development Agency (THDA) was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as ex officio board members of the agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and Title 24, *Code of Federal Regulations*, Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

THDA is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds

Notes to the Financial Statements (Continued)

and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, the Tax and Insurance Holding/Escrow account, Funds on deposit for, or on behalf of, borrower's related to Loan Servicing, Hardest Hit Fund cash, and Net Pension Assets (see note 4).

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

The Tax and Insurance Holding/Escrow account is used to service mortgage accounts. These funds are tax and insurance escrows held on behalf of various mortgagors from payments collected on mortgages. The agency is obligated to expend these monies on escrowed items. The Payment Clearing and Disbursement accounts are also used to service mortgages.

Deferred Amount on Refundings and Bond Premiums and Discounts

Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.

Notes to the Financial Statements (Continued)

Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

Mortgages

Mortgages are carried at their original amount less collected principal.

Loan Servicing

On November 1, 2016, THDA began servicing the mortgage loans previously serviced by an approved THDA Loan Servicer and in May of 2017 began servicing the loans originated from THDA's Originating Agents.

Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds.

Notes to the Financial Statements (Continued)

outstanding. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Allowance for Forgivable Second Mortgages

THDA has offered the Down Payment Assistance product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period. During fiscal year 2018, the agency determined that an amount of second mortgage down payment assistance loans are not expected to be recovered due to forgiveness or foreclosure. This amount was recorded as an allowance.

Beginning in April 2017 this product changed to 100% forgivable second mortgage loan for the 30-year term of the first mortgage. It is 100% repayable in the event the home is sold, refinanced or owners move out of the home. Because of the likelihood that the majority of second mortgage loans will be repaid in the course of the 30-year term, the allowance account established for the second mortgage loans beginning October 2014 will not be used for any second mortgages made after March 2017.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Note 2. Deposits and Investments

Deposits

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

Notes to the Financial Statements (Continued)

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2018, the bank balance was \$ 32,468,510. This amount includes \$2,840,941; which is held in a T&I Escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf. All bank balances at June 30, 2018, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2018, \$28,695,048 was in the BNYM. Of this amount, \$28,445,048 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the State of Tennessee Treasurer's Report. That report is available on the state's website at www.treasury.state.tn.us.

Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk – Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Notes to the Financial Statements (Continued)

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

June 30, 2018		
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$167,711,320	2.878
U.S. Treasury Coupon	12,969,783	2.704
U.S. Agency Discount	187,487,134	0.133
Total	\$368,168,237	1.474

Fair Value Measurements – THDA implemented GASB Statement 72, *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2018, (expressed in thousands):

June 30, 2018				
Assets by Fair Value Level	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Agency Coupon	\$167,711	\$ -	\$167,711	\$ -
U.S. Treasury Coupon	12,970	12,970	-	-
U.S. Agency Discount	187,487	-	187,487	-
Total debt securities	\$368,168	\$12,970	355,198	\$ -

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets as those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets as those securities. Level 3 valuations are derived from valuation techniques in which significant inputs are unobservable.

Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to the Investments section of Note 1 for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2018, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

Notes to the Financial Statements (Continued)

June 30, 2018					
Investment Type	Fair Value	U.S. Treasury ¹	AAA	AA+	Not Rated ²
U.S. Agency Coupon	\$167,711,320	\$ -	\$14,412,390	\$151,034,949	\$ 2,263,981
U.S. Treasury Coupon	12,969,783	12,969,783	-	-	-
U.S. Agency Discount	187,487,134	-	30,000,000	-	157,487,134
Total	\$368,168,237	\$12,969,783	\$44,412,390	\$151,034,949	\$159,751,115

In addition to these investments, the agency has \$136,991,170 invested in a money market fund. This fund is measured at amortized cost and has a Standard and Poor's rating of AAA.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

June 30, 2018		
Issuer	Fair Value (Thousands)	% of Portfolio
Federal Home Loan Bank	\$217,505	59.08
Federal Home Loan Mortgage Corp.	\$81,487	22.13
Federal National Mortgage Assoc.	\$53,951	14.65

GASB 79 Disclosures – During fiscal year 2016, THDA implemented GASB Statement 79, *Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that THDA participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost.

Note 3. Liabilities

Bonds Issued and Outstanding

Homeownership Program Bonds				
Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2018 (Thousands)
2007-4	1/1/2009 – 7/1/2038	\$ 150,000	3.75 to 5.50	\$ -
2008-1	7/1/2009 – 1/1/2039	60,000	2.45 to 5.70	-
2009-1	1/1/2010 – 7/1/2029	50,000	0.75 to 5.00	13,255
2009-2	7/1/2010 – 7/1/2030	75,000	0.90 to 5.00	17,480
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50	33,435
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65	52,185

¹ This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

² This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

Notes to the Financial Statements (Continued)

2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50	59,395
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00	45,710

Total Homeownership Program Bonds	\$827,690	\$ 221,460
Plus: Unamortized Bond Premiums		1,928
Net Homeownership Program Bonds		<u>\$223,388</u>

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2018 (Thousands)
2009-A	1/1/2011 – 1/1/2040	\$100,000	0.90 to 4.625	\$ 8,445
2010-A	1/1/2011 – 7/1/2041	160,000	0.60 to 5.00	11,965
2010-B	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	40,580
2011-A	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	12,275
2011-B	7/1/2012 – 7/1/2041	100,000	0.25 to 4.50	46,020
2011-C	7/1/2012 – 7/1/2041	100,000	0.40 to 4.30	42,015
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	99,090

Total Housing Finance Program Bonds	\$810,000	\$260,390
Plus: Unamortized Bond Premiums		2,756
Net Housing Finance Program Bonds		<u>\$263,146</u>

Residential Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2018 (Thousands)
2013-1	1/1/2014 – 7/1/2043	\$ 215,905	0.40 to 4.00	\$ 98,530
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	67,335
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	89,825
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	106,210
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	117,920
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	142,270
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	109,900
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	113,680
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	44,045
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	94,125
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	164,465
2017-3	7/1/2018 – 1/1/2048	99,900	0.80 to 3.65	99,070
2017-4	7/1/2018 – 7/1/2048	99,900	0.95 to 4.00	99,900
2018-1	1/1/2019 – 1/1/2043	99,900	1.40 to 4.00	99,900
2018-2	1/1/2019 – 1/1/2049	160,000	1.75 to 4.00	160,000

Total Residential Finance Program Bonds	\$2,008,905	\$1,607,175
Plus: Unamortized Bond Premiums		35,037
Subtract: Unamortized Bond Discount		(34)
Net Residential Finance Program Bonds		<u>\$1,642,178</u>

Net Total All Bonds		<u>\$2,128,712</u>

Notes to the Financial Statements (Continued)

Housing Finance Program Bonds – The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

Debt Service Requirements

Debt service requirements to maturity at June 30, 2018, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2019	\$ 45,460	\$ 67,559	\$ 113,019
2020	78,775	69,483	148,258
2021	85,160	67,472	152,632
2022	81,740	65,162	146,902
2023	78,190	62,888	141,078
2024 – 2028	390,215	277,914	668,129
2029 – 2033	393,280	212,378	605,658
2034 – 2038	410,000	140,523	550,523
2039 – 2043	359,090	66,736	425,826
2044 - 2048	157,285	15,398	172,683
2049	9,830	273	10,103
Total	<u>\$2,089,025</u>	<u>\$1,045,786</u>	<u>\$3,134,811</u>

Notes to the Financial Statements (Continued)

Redemption of Bonds and Notes

During the year ended June 30, 2018, bonds were retired at par before maturity in the Homeownership Program in the amount of \$62,025,000, in the Housing Finance Program in the amount of \$55,915,000, and in the Residential Finance Program in the amount of \$144,045,000. The respective carrying values of the bonds were \$62,672,676, \$56,543,851 and \$148,217,359. This resulted in revenue to the Homeownership Program of \$647,676, to the Housing Finance Program of \$628,851, and to the Residential Finance Program of \$4,172,359.

On June 27, 2017, the agency issued \$175,000,000 in Residential Finance Program Bonds, Issue 2017-2. On July 1, 2017, the agency used \$23,110,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$23,110,000 early redemption). The carrying amount of these bonds was \$23,217,325. The refunding increased the agency's debt service by \$7,948,844 over the next 20.50 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$848,929.

On September 28, 2017, the agency issued \$99,900,000 in Residential Finance Program Bonds, Issue 2017-3

On December 19, 2017, the agency issued \$99,900,000 in Residential Finance Program Bonds, Issue 2017-4. On January 1, 2018, the agency used \$11,460,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$11,460,000 early redemption). The carrying amount of these bonds was \$11,460,000. The refunding reduced the agency's debt service by \$4,972,339 over the next 16 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$2,364,905.

On March 29, 2018, the agency issued \$99,900,000 in Residential Finance Program Bonds, Issue 2018-1.

On June 12, 2018, the agency issued \$160,000,000 in Residential Finance Program Bonds, Issue 2018-2.

Notes to the Financial Statements (Continued)

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2018 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2017	Additions	Reductions	Ending Balance June 30, 2018	Amounts Due Within One Year ³
Bonds Payable	\$1,944,050	\$459,700	(\$314,725)	\$2,089,025	\$87,945,
Plus: Unamortized Bond Premiums	36,406	10,317	(7,002)	39,721	-
Less: Unamortized Bond Discounts	-	(35)	1	(34)	-
Compensated Absences	1,314	69	(17)	1,366	736
Net Pension Liability	7,652	1,549	(1,542)	7,659	-
Total OPEB Liability	1,661	3,976	(2,059)	3,578	-
Escrow Deposits	5,391	78,563	(70,639)	13,315	2,719
Arbitrage Rebate Payable	1,110	-	(745)	365	-
Total	\$1,997,584	\$554,139	(\$396,728)	\$2,154,995	\$91,400

Note 4. Restricted Net Position

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

Note 5. Pension Plans

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with

³Amounts due within one year include management authorized bond refundings at June 30.

Notes to the Financial Statements (Continued)

pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.state.tn.us/tcrs.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. THDA employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer

Notes to the Financial Statements (Continued)

contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2018, to the Closed State and Higher Education Employee Pension Plan were \$1,891,406, which is 18.87 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2018, THDA reported a liability of \$7,659,371 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. THDA's proportion of the net pension liability was based on a projection of THDA's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, THDA's proportion was 0.427994 percent. The proportion measured as of June 30, 2016, was 0.419391 percent.

Pension expense – For the year ended June 30, 2018, THDA recognized a pension expense of \$1,584,150. Allocated pension expense was \$1,589,179 before being reduced by \$5,029 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, THDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 607	\$224
Net difference between projected and actual earnings on pension plan investments	28	-
Change in proportionate share of net asset or liability	20	-
Changes in assumptions	1,305	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2017	1,891	-
Total	\$3,851	\$224

Deferred outflows of resources, resulting from THDA's employer contributions of \$1,891,406 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Notes to the Financial Statements (Continued)

Year Ended June 30:	
2019	205,395
2020	1,269,075
2021	688,928
2022	(428,854)
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected six years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.5 percent decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the

Notes to the Financial Statements (Continued)

expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%.

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents THDA’s proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what THDA’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency’s proportionate share of the net pension liability	\$15,780,009	\$7,659,371	\$831,851

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Notes to the Financial Statements (Continued)

Payable to the Pension Plan

At June 30, 2018, THDA reported a payable of \$78,546 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2018.

State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description – State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under *Tennessee Code Annotated* Title 8, Chapters 34-37.

The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.state.tn.us/tcrs.

Benefits provided – *Tennessee Code Annotated* Title 8, Chapters 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation by 1.0 percent multiplied by member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher

Notes to the Financial Statements (Continued)

Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2018, to the State and Higher Education Employee Retirement Plan were \$56,893, which is 1.29 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2018, THDA reported an asset of \$35,422 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA's proportion of the net pension asset was based on a projection of THDA's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, THDA's proportion was 0.170803 percent. The proportion measured as of June 30, 2016, was 0.391715 percent.

Pension expense – For the year ended June 30, 2018, THDA recognized a pension expense of \$16,527. Allocated pension expense was \$14,375 before being increased by \$2,152 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1	\$1
Net difference between projected and actual earnings on pension plan investments	-	3
Changes in proportion of share of net asset or liability	19	-

Notes to the Financial Statements (Continued)

Changes in assumptions	3	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2017	57	-
Total	\$80	\$4

Deferred outflows of resources, resulting from THDA's employer contributions of \$56,593 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2019	2,058
2020	2,058
2021	1,989
2022	1,621
2023	2,388
Thereafter	9,677

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with generational mortality improvement.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.5 percent to 2.25 percent; and

Notes to the Financial Statements (Continued)

decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents THDA's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what THDA's proportionate share of the net pension asset

Notes to the Financial Statements (Continued)

would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency's proportionate share of the net pension asset	\$(4,430)	\$(35,422)	\$(58,537)

Payable to the Pension Plan

At June 30, 2018, THDA reported a payable of \$2,632 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2018 for both defined benefit pension plans was \$1,600,678.

Note 6. Deferred Compensation Plans

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code, Section 457, and the other pursuant to *Internal Revenue Code* (IRC), Section 401(k). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The THDA provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The THDA recognized a pension expense of \$338,108 for employer contributions.

Notes to the Financial Statements (Continued)

The THDA recognized a pension payable of \$15,339 for employer contributions

Note 7. Provisions for Mortgage Loan Losses

Most mortgage loans are insured by the Federal Housing Administration, an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

Note 8. Insurance-Related Activities

Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property; crime and fidelity coverage on the state's officials and employees; and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

Notes to the Financial Statements (Continued)

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2018, is presented in the *Tennessee Comprehensive Annual Financial Report (CAFR)*. The CAFR is available on the state's website at www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-cafr.html. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2018, the Risk Management Fund held \$189 million in cash designated for payment of claims.

Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 9. Other-Postemployment Benefits OPEB

Closed State Employee Group OPEB Plan

General information about the OPEB plan

Plan description - Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015 and choose coverage, are provided with pre-65 retiree health insurance benefits through the closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan includes the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee and the institutions that make up the State University and Community College System.

Notes to the Financial Statements (Continued)

Benefits provided - The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65 are enrolled in this plan. All members have the option of choosing between the partnership promise, no partnership promise, standard preferred provider organization (PPO) plan or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits, as active employees, at a blended premium rate that considers the cost of active employees. This creates an implicit subsidy for the retirees. The retirees cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. No subsidy is provided to retirees in the health savings CDHP plan. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*, establishes the required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates.

Total OPEB Liability

Proportionate share - The Tennessee Housing Development Agency's proportionate share of the collective total OPEB liability, related to the EGOP, was \$3.6 million. At the June 30, 2017, measurement date, the Tennessee Housing Development Agency's proportion of the collective total OPEB liability was 0.2664798%, representing the first-time presentation of the proportion. Tennessee Housing Development Agency's proportion of the collective total OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017 and measurement date of June 30, 2017.

Actuarial assumptions - The collective total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%

Notes to the Financial Statements (Continued)

Healthcare cost trend rates	7.5% for 2018, decreasing annually to an ultimate rate of 3.83% for 2050 and later years.

Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017 pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate - The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal General Obligation (GO) AA index.

Changes in assumptions - The discount rate was changed from 2.92% as of the beginning of the measurement period to 3.56% as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate - The following presents Tennessee Housing Development Agency proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56%) or 1-percentage-point higher (4.56%) than the current discount rate (expressed in thousands).

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Proportionate share of the collective total OPEB liability	\$ 3,826	\$ 3,578	\$ 3,345

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate - The following presents Tennessee Housing Development Agency proportionate share of the collective total OPEB liability of the EGOP, as well as what the

Notes to the Financial Statements (Continued)

proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (6.50% decreasing to 2.83%) or 1-percentage-point higher (8.50% decreasing to 4.83%) than the current healthcare cost trend rate.

	1% Decrease (6.50% decreasing to 2.83%)	Healthcare Cost Trend Rates (7.50% decreasing to 3.83%)	1% Increase (8.50% decreasing to 4.83%)
Proportionate share of the collective total OPEB liability	\$ 3,221	\$ 3,578	\$ 3,996

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense - For the fiscal year ended June, 30, 2018, the Tennessee Housing Development Agency recognized OPEB expense of \$274 thousand.

Deferred outflows of resources and deferred inflows of resources - For the fiscal year ended June, 30, 2018, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources (expressed in thousands):

	Deferred Outflows of resources	Deferred Inflows of resources
Differences between actual and expected experience	\$ -	\$ -
Changes of assumptions	-	137
Changes in proportion and differences between benefits paid and proportionate share of benefits paid.	-	-
Payments subsequent to the measurement date	237	
Total	<u>\$ 237</u>	<u>\$ 137</u>

Deferred outflows of resources, resulting from the Tennessee Housing Development Agency's employer payments of \$237 thousand subsequent to the measurement date, will be recognized as a decrease in total OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (expressed in thousands):

Notes to the Financial Statements (Continued)

For the year ended June 30:

2019	\$ (20)
2020	(20)
2021	(20)
2022	(20)
2023	(20)
Thereafter	(39)

In the tables above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

Closed Tennessee OPEB Plan

General information about the OPEB plan

Plan description – Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015 and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The State of Tennessee (primary government) as well as the Tennessee Student Assistance Corporations, the Tennessee Housing Development Agency, the University of Tennessee and the other institutions that make up the State University and Community College System also participates in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state administered Teacher Group Insurance and Local Government Insurance Plans.

Benefits provided - The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Title 8, Chapter 27, Parts 201, 301, and 701. *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare eligible and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost, however, participating employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25. Tennessee Housing Development Agency does not provide any subsidies for retirees in the TNP. The primary government paid \$7,976 thousand for OPEB as the benefits came due during

Notes to the Financial Statements (Continued)

the reporting period. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

In accordance with Title 8, Chapter 27, Parts 209, *Tennessee Code Annotated*, the state insurance committees established by Title 8, Chapter 27, Parts 201, 301, and 701 determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the TN OPEB liability associated with the Tennessee Housing Development Agency’s employees. The primary government’s proportionate share of the total OPEB liability associated with the Tennessee Housing Development Agency was \$339 thousand. At the June 30, 2017, measurement date, the proportion of the collective total OPEB liability associated with the Tennessee Housing Development Agency was 0.1909649%, representing the first-time presentation of this proportion. The proportion of the collective total OPEB associated with the Tennessee Development Housing Agency was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017 and a measurement date of June 30, 2017.

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	The premium subsidies provided to retirees in the Closed Tennessee OPEB Plan are assumed to remain unchanged for the entire projection; therefore trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017 pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants

Notes to the Financial Statements (Continued)

dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2 percent load for males and a -3 percent load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10 percent load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20 Year Municipal GO (General Obligation) AA index.

Changes in assumptions – The discount rate was changed from 2.92 percent as of the beginning of the measurement period to 3.56 percent as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary governments proportionate share of the Tennessee Housing Development Agency's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate. The Tennessee Housing Development Agency does not report a proportionate share of the OPEB liability for the employees in the TNP.

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Primary government's share of the collective total OPEB liability	\$ 383	\$ 339	\$ 300

OPEB expense – For the fiscal year ended June 30, 2018, the primary government recognized OPEB expense of \$15 thousand for employees of the Tennessee Housing Development Agency participating in the TNP.

Total OPEB Expense – The total OPEB expense for the year ended June 30, 2018 was \$289 thousand, which consisted of OPEB expense of \$274 thousand for the EGOP and \$15 thousand paid by the Tennessee Housing Development Agency for the TNP.

Note 10. On-Behalf Payments

During the year ended June 30, 2018, the State of Tennessee made payments of \$7,976 on behalf of THDA for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee

Notes to the Financial Statements (Continued)

OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-cafr.html.

Note 11. Payments to Primary Government

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

Note 12. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2018, Tennessee Housing Development Agency implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. GASB Statement 75 establishes standards for the measurement, recognition, and display of the OPEB liability and related expenses, deferred inflows, deferred outflows, note disclosure and required supplementary information. The implementation of GASB 75 resulted in a cumulative adjustment to the beginning net position of \$(1,780,287). This cumulative adjustment does not include related deferred inflows and deferred outflows of resources.

Note 13. Subsequent Events

On July 1, 2018, the agency used \$13,075,000 of Residential Finance Program Bonds, Issue 2018-2, to refund bonds previously issued in the Homeownership Program (this amount consists of \$13,075,000 early redemption). The carrying amount of these bonds was \$13,075,000. The refunding reduced the agency's debt service by \$3,199,665 over the next 11 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$1,636,564.

On July 27, 2018, THDA requested to withdraw approximately \$23,376,000 of excess funds from the Homeownership Program Bond Resolution to fund the acquisition of servicing rights from U.S. Bank. On July 30, 2018, THDA wired \$15,585,487 to U.S. Bank as a one-time servicing

Notes to the Financial Statements (Continued)

release and transfer fee payment. On August 6, 2018, THDA transferred \$7,902,932 to Volunteer Mortgage Loan Servicing (VMLS) to fund the VMLS Escrow Account for escrow advances.

Residential Finance Program Bonds, Issue 2018-3, were sold on September 6, 2018. The bond maturities are as follows:

	Maturity Range	Issued Amount	Interest Rate (Percent)
Series			
2018-3	7/1/2019 – 7/1/2049	\$149,900,000	1.500 to 4.250

Residential Finance Program Bonds, Issue 2018-4, were authorized by the board of directors on September 25, 2018, not to exceed \$225,000,000. The sale of the bonds will occur no later than December 31, 2018.

Residential Finance Program Bonds, Issue 2019-1, were authorized by the board of directors on November 13, 2018, not to exceed \$175,000,000. The sale of the bonds will occur no later than June 30, 2019.

Residential Finance Program Bonds, Issue 2018-4, were sold on November 15, 2018. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2018-4	7/1/2019 – 7/1/2049	\$225,000,000	1.875 to 4.500

Residential Finance Program Bonds, Issue 2019-1, were sold on March 21, 2019. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2019-1	1/1/2020 – 1/1/2050	\$175,000,000	1.600 to 4.250

Residential Finance Program Bonds, Issue 2019-2, were authorized by the board of directors on March 26, 2019, not to exceed \$200,000,000. The sale of the bonds will occur no later than July 31, 2019.

Residential Finance Program Bonds, Issue 2019-2, were sold on June 27, 2019. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2019-2	1/1/2020 – 1/1/2048	\$200,000,000	1.400 to 4.000

Residential Finance Program Bonds, Issue 2019-3, were authorized by the board of directors on July 23, 2019, not to exceed \$150,000,000. The sale of the bonds will occur no later than December 31, 2019.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA's Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentag e of the Total Pension Liability
2018	0.170803%	\$35	\$3,068	1.15%	131.51%
2017	0.391715%	\$33	\$1,661	1.99%	130.56%
2016	0.457171%	\$13	\$498	2.60%	142.55%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.427994%	\$7,659	\$10,268	74.60%	88.88%
2017	0.419391%	7,652	10,240	74.73%	87.96%
2016	0.421046%	5,429	10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
State and Higher Education Employee Retirement Plan Within TCRS

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2018	\$57	\$57	\$-	\$4,410	1.29%
2017	35	35		3,068	1.14%
2016	47	47	-	1,661	2.81%
2015	19	19	-	498	3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
Closed State and Higher Education Employee Pension Plan With TCRS

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2018	\$1,891	\$1,891	\$-	\$ 10,024	18.87%
2017	1,542	1,542	-	10,268	15.02%
2016	1,539	1,539	-	10,240	15.03%
2015	1,652	1,652	-	10,994	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%
2009	1,201	1,201	-	9,224	13.02%

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of Collective Total OPEB Liability
Closed State Employee Group OPEB Plan

(Expressed in Thousands)

EGOP

	<u>2018</u>
Employer proportion of the collective total OPEB liability	0.2664798%
Employer proportionate share of the collective total OPEB liability	\$ 3,578
Covered-employee payroll	\$ 9,720
Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	36.81%

Notes to Schedule

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of Collective Total OPEB Liability
Closed Tennessee OPEB Plan

(Expressed in Thousands)

TNP	2018
Employer proportion of the collective total OPEB liability	0.00%
Employer proportionate share of the collective total OPEB liability	\$ -
Primary government proportionate share of the collective total OPEB liability	<u>\$ 339</u>
Collective total OPEB liability	<u>\$ 339</u>
 Covered-employee payroll	 \$ 10,005
 Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	 0.00%

Notes to Schedule

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 4,148	\$ 13,031	\$ 28,457	\$ 19,785	\$ 150,770	\$ 216,191
Investments	-	735	7,145	8,215	67,784	83,879
Receivables:						
Accounts	-	294	532	-	13	839
Interest	-	19	1,656	1,967	7,513	11,155
First mortgage loans	155	2,185	12,897	6,964	37,567	59,768
Due from federal government	34,977	-	-	-	-	34,977
Due from other funds	-	-	-	-	3,167	3,167
Total current assets	39,280	16,264	50,687	36,931	266,814	409,976
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	31,714	-	33,942	363	534	66,553
Investments	-	-	58,514	20,351	48,947	127,812
Investment Interest receivable	-	-	548	69	173	790
Investments	-	1,744	-	-	46,851	48,595
First mortgage loans receivable	534	48,811	243,154	258,555	1,507,348	2,058,402
Second mortgage loans receivable	-	-	38,108	-	-	38,108
Allowance for uncollectable second mortgages	-	-	(14,031)	-	-	(14,031)
Unearned service release premiums	1,106	-	-	-	-	1,106
Advance to local government	3,135	-	-	-	-	3,135
Net pension asset	35	-	-	-	-	35
Capital assets:						
Furniture and equipment	5,108	-	-	-	-	5,108
Less accumulated depreciation	(2,232)	-	-	-	-	(2,232)
Total noncurrent assets	39,400	50,555	360,235	279,338	1,603,853	2,333,381
Total assets	78,680	66,819	410,922	316,269	1,870,667	2,743,357
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	-	-	441	441
Deferred outflows related to pensions	3,931	-	-	-	-	3,931
Deferred outflows related to OPEB	237	-	-	-	-	237
Total deferred outflows of resources	4,168	-	-	-	441	4,609
LIABILITIES						
Current liabilities:						
Accounts payable	15,757	13	6	30	69	15,875
Accrued payroll and related liabilities	680	-	-	-	-	680
Compensated absences	736	-	-	-	-	736
Due to primary government	91	-	-	-	-	91
Interest payable	-	-	4,289	4,433	23,459	32,181
Escrow deposits	2,719	-	-	-	-	2,719
Prepayments on mortgage loans	-	-	147	128	930	1,205
Due to federal government	29,517	-	-	-	-	29,517
Due to other funds	392	-	2,775	-	-	3,167
Bonds payable	-	-	28,545	11,450	47,950	87,945
Total current liabilities	49,892	13	35,762	16,041	72,408	174,116
Noncurrent liabilities:						
Bonds payable	-	-	194,843	251,696	1,594,228	2,040,767
Compensated absences	630	-	-	-	-	630
Net pension liability	7,659	-	-	-	-	7,659
Net OPEB liability	3,578	-	-	-	-	3,578
Escrow deposits	696	192	-	-	9,708	10,596
Arbitrage rebate payable	-	-	365	-	-	365
Total noncurrent liabilities	12,563	192	195,208	251,696	1,603,936	2,063,595
Total liabilities	62,455	205	230,970	267,737	1,676,344	2,237,711
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	228	-	-	-	-	228
Deferred inflows related to OPEB	137	-	-	-	-	137
Total deferred inflows of resources	365	-	-	-	-	365
NET POSITION						
Net investment in capital assets	2,876	-	-	-	-	2,876
Restricted for single family bond programs	-	-	179,952	48,532	194,764	423,248
Restricted for grant programs	-	12,080	-	-	-	12,080
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for net pension asset	35	-	-	-	-	35
Unrestricted	13,964	54,534	-	-	-	68,498
Total net position	\$ 20,028	\$ 66,614	\$ 179,952	\$ 48,532	\$ 194,764	\$ 509,890

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ 10	\$ -	\$ 14,521	\$ 13,277	\$ 62,297	\$ 90,105
Investment income:						
Interest	220	157	2,711	785	3,152	7,025
Net increase (decrease) in the fair value of investments	-	6	(2,096)	(461)	(1,736)	(4,287)
Federal grant administration fees	15,279	-	-	-	-	15,279
Fees and other income	4,478	1	-	-	724	5,203
Total operating revenues	19,987	164	15,136	13,601	64,437	113,325
OPERATING EXPENSES						
Salaries and benefits	20,177	-	-	-	-	20,177
Contractual services	6,079	-	-	-	135	6,214
Materials and supplies	1,436	-	-	-	-	1,436
Rentals and insurance	12	-	-	-	-	12
Other administrative expenses	836	-	-	-	-	836
Other program expenses	598	7	3,594	254	1,119	5,572
Interest expense	-	19	9,127	8,951	40,142	58,239
Mortgage service fees	-	137	948	1,000	4,748	6,833
Issuance costs	-	-	-	-	3,812	3,812
Depreciation	476	-	-	-	-	476
Total operating expenses	29,614	163	13,669	10,205	49,956	103,607
Operating income (loss)	(9,627)	1	1,467	3,396	14,481	9,718
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	317,323	-	-	-	-	317,323
Other grant revenue	-	3	-	-	-	3
Federal grants expenses	(317,388)	-	-	-	-	(317,388)
Local grants expenses	(7,952)	-	-	-	-	(7,952)
Total nonoperating revenues (expenses)	(8,017)	3	-	-	-	(8,014)
Income (loss) before transfers	(17,644)	4	1,467	3,396	14,481	1,704
Transfers (to) other funds	-	(6,531)	(10,576)	(7,910)	-	(25,017)
Transfers from other funds	20,764	-	-	-	4,253	25,017
Change in net position	3,120	(6,527)	(9,109)	(4,514)	18,734	1,704
Total net position, July 1	18,688	73,141	189,061	53,046	176,030	509,966
Cumulative effect of a change in accounting principle	(1,780)	-	-	-	-	(1,780)
Total net position, July 1, as restated	16,908	73,141	189,061	53,046	176,030	508,186
Total net position, June 30	\$ 20,028	\$ 66,614	\$ 179,952	\$ 48,532	\$ 194,764	\$ 509,890

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ 1,270	\$ 3,912	\$ 90,115	\$ 68,270	\$ 209,833	\$ 373,400
Receipts from federal government	15,030	-	-	-	-	15,030
Receipts from other funds	2,255	-	485	-	-	2,740
Other miscellaneous receipts	4,478	1	-	-	724	5,203
Acquisition of mortgage loans	-	(4,859)	(10,254)	-	(448,304)	(463,417)
Payments to service mortgages	(1,106)	(137)	(948)	(1,000)	(4,748)	(7,939)
Payments to suppliers	(10,169)	-	(4,064)	(1,003)	(1,235)	(16,471)
Payments to federal government	-	-	(1,490)	-	-	(1,490)
Payments to other funds	-	-	-	-	(2,740)	(2,740)
Payments to or for employees	(20,844)	-	-	-	-	(20,844)
Net cash provided (used) by operating activities	(9,086)	(1,083)	73,844	66,267	(246,470)	(116,528)
Cash flows from non-capital financing activities:						
Operating grants received	313,997	3	-	-	-	314,000
Transfers in (out)	20,764	(6,531)	10,761	(7,910)	(17,084)	-
Proceeds from sale of bonds	-	-	-	-	469,989	469,989
Operating grants paid	(319,857)	-	-	-	-	(319,857)
Call premium paid	-	-	(14)	-	-	(14)
Cost of issuance paid	-	-	-	-	(3,812)	(3,812)
Principal payments	-	-	(101,875)	(57,825)	(155,025)	(314,725)
Interest paid	-	(19)	(11,955)	(10,696)	(39,816)	(62,486)
Net cash provided (used) by non-capital financing activities	14,904	(6,547)	(103,083)	(76,431)	254,252	83,095
Cash flows from capital and related financing activities:						
Purchases of capital assets	(1,542)	-	-	-	-	(1,542)
Net cash used by capital and related financing activities	(1,542)	-	-	-	-	(1,542)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	15,587	49,231	21,430	117,222	203,470
Purchases of investments	-	(15,709)	(50,725)	(32,262)	(163,821)	(262,517)
Investment interest received	220	157	2,933	765	3,076	7,151
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	34	143	79	437	693
Net cash provided (used) by investing activities	220	69	1,582	(9,988)	(43,086)	(51,203)
Net increase (decrease) in cash and cash equivalents	4,496	(7,561)	(27,657)	(20,152)	(35,304)	(86,178)
Cash and cash equivalents, July 1	31,366	20,592	90,056	40,300	186,608	368,922
Cash and cash equivalents, June 30	\$ 35,862	\$ 13,031	\$ 62,399	\$ 20,148	\$ 151,304	\$ 282,744

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (9,627)	\$ 1	\$ 1,467	\$ 3,396	\$ 14,481	\$ 9,718
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	476	-	-	-	-	476
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	-	(83)	(532)	-	769	154
(Increase) decrease in mortgage interest receivable	-	-	905	591	(1,155)	341
(Increase) in pension asset	(2)	-	-	-	-	(2)
(Increase) in deferred pension outflows	(67)	-	-	-	-	(67)
Decrease in deferred OPEB outflows	4	-	-	-	-	4
(Increase) decrease in mortgage loans receivable	-	(940)	65,055	54,449	(307,034)	(188,470)
(Increase) in due from federal government	(249)	-	-	-	-	(249)
Decrease in interfund receivables	2,255	-	485	-	-	2,740
(Decrease) in interfund payables	-	-	-	-	(2,740)	(2,740)
Increase (decrease) in accounts payable	228	83	(1,303)	(796)	6,671	4,883
(Decrease) in unearned service release premiums	(1,106)					(1,106)
Increase in accrued payroll / compensated absences	100	-	-	-	-	100
(Decrease) in due to primary government	(632)	-	-	-	-	(632)
(Decrease) in arbitrage rebate liability	-	-	(745)	-	-	(745)
Increase in pension liability	7	-	-	-	-	7
(Decrease) in OPEB liability	(104)					(104)
(Decrease) in deferred pension inflows	(286)	-	-	-	-	(286)
Increase in deferred OPEB inflows	137	-	-	-	-	137
Investment income included as operating revenue	(220)	(163)	(615)	(324)	(1,416)	(2,738)
Interest expense included as operating expense	-	19	9,127	8,951	40,142	58,239
Issuance cost included as operating expense	-	-	-	-	3,812	3,812
Total adjustments	541	(1,084)	72,377	62,871	(260,951)	(126,246)
Net cash provided (used) by operating activities	\$ (9,086)	\$ (1,083)	\$ 73,844	\$ 66,267	\$ (246,470)	\$ (116,528)
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	\$ -	\$ (43)	\$ (1,633)	\$ (560)	\$ (2,585)	\$ (4,821)
Total noncash investing, capital, and financing activities	\$ -	\$ (43)	\$ (1,633)	\$ (560)	\$ (2,585)	\$ (4,821)

***UNAUDITED FINANCIAL
INFORMATION***

March 31, 2019

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

	March 31, 2019					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2019
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 8,899	\$ 17,481	\$ 15,189	\$ 17,981	\$ 240,341	\$ 299,891
Investments	-	-	-	-	42,166	42,166
Receivables:						
Accounts	5,436	492	-	-	-	5,928
Interest	-	26	674	905	7,381	8,986
First mortgage loans	242	2,209	12,673	8,020	48,401	71,545
Due from federal government	22,610	-	-	-	-	22,610
Due from other funds	-	-	-	-	28,136	28,136
Total current assets	37,187	20,208	28,536	26,906	366,425	479,262
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	28,567	-	11,083	188	6,963	46,801
Investments	-	-	51,532	16,285	58,325	126,142
Investment interest receivable	-	-	233	102	372	707
Investments	-	1,775	297	331	31,515	33,918
First mortgage loans receivable	440	48,151	196,976	230,388	1,887,956	2,363,911
Second mortgage loans receivable	-	-	48,115	-	-	48,115
Allowance for uncollectable second mortgages	-	-	(17,814)	-	-	(17,814)
Unearned service release premiums	20,078	-	-	-	-	20,078
Advance to local government	3,142	-	-	-	-	3,142
Net pension asset	35	-	-	-	-	35
Capital assets:						
Furniture and equipment	5,108	-	-	-	-	5,108
Less accumulated depreciation	(2,232)	-	-	-	-	(2,232)
Total noncurrent assets	55,138	49,926	290,422	247,294	1,985,131	2,627,911
Total assets	92,325	70,134	318,958	274,200	2,351,556	3,107,173
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	-	-	355	355
Deferred outflows related to pensions	3,931	-	-	-	-	3,931
Deferred outflows related to OPEB	237	-	-	-	-	237
Total deferred outflows of resources	4,168	-	-	-	355	4,523
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 5,133	\$ 12	\$ 205	\$ 956	\$ 1,628	\$ 7,934
Accrued payroll and related liabilities	680	-	-	-	-	680
Compensated absences	736	-	-	-	-	736
Interest payable	-	-	1,553	1,870	15,958	19,381
Escrow deposits	17,174	-	-	-	-	17,174
Prepayments on mortgage loans	-	-	95	106	1,102	1,303
Due to federal government	10,698	-	-	-	-	10,698
Due to other funds	26,609	-	1,527	-	-	28,136
Bonds payable	-	-	19,355	12,435	80,455	112,245
Total current liabilities	61,030	12	22,735	15,367	99,143	198,287
Noncurrent liabilities:						
Bonds payable	-	-	146,991	214,983	2,007,248	2,369,222
Compensated absences	630	-	-	-	-	630
Net pension liability	7,659	-	-	-	-	7,659
Total OPEB liability	3,578	-	-	-	-	3,578
Escrow deposits	2,455	202	-	-	11,997	14,654
Arbitrage rebate payable	-	-	365	-	-	365
Total noncurrent liabilities	14,322	202	147,356	214,983	2,019,245	2,396,108
Total liabilities	75,352	214	170,091	230,350	2,118,388	2,594,395
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	228	-	-	-	-	228
Deferred inflows related to OPEB	137	-	-	-	-	137
Total deferred inflows of resources	365	-	-	-	-	365
NET POSITION						
Net investment in capital assets	2,876	-	-	-	-	2,876
Restricted for single family bond programs	-	-	148,867	43,850	233,523	426,240
Restricted for grant programs	-	15,250	-	-	-	15,250
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for pension asset	35	-	-	-	-	35
Unrestricted	14,712	54,670	-	-	-	69,382
Total net position	\$ 20,776	\$ 69,920	\$ 148,867	\$ 43,850	\$ 233,523	\$ 516,936

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2019

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2019
OPERATING REVENUES						
Mortgage interest income	\$ -	\$ 33	\$ 7,564	\$ 7,757	\$ 58,512	\$ 73,866
Investment income:						
Interest	323	196	1,665	579	3,355	6,118
Net increase in the fair value of investments	-	40	635	546	3,058	4,279
Federal grant administration fees	11,214	-	-	-	-	11,214
Fees and other income	3,452	3	-	-	157	3,612
Total operating revenues	14,989	272	9,864	8,882	65,082	99,089
OPERATING EXPENSES						
Salaries and benefits	16,348	-	-	-	-	16,348
Contractual services	6,307	-	-	-	-	6,307
Materials and supplies	1,241	-	-	-	-	1,241
Rentals and insurance	8	-	-	-	-	8
Other administrative expenses	611	-	-	-	-	611
Other program expenses	1,656	10	4,229	20	1,052	6,967
Interest expense	-	-	4,885	5,652	40,671	51,208
Mortgage service fees	-	106	101	78	421	706
Issuance costs	-	-	-	-	4,032	4,032
Total operating expenses	26,171	116	9,215	5,750	46,176	87,428
Operating income (loss)	(11,182)	156	649	3,132	18,906	11,661
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	240,931	-	-	-	-	240,931
Federal grants expenses	(240,638)	-	-	-	-	(240,638)
Local grants expenses	(4,908)	-	-	-	-	(4,908)
Total nonoperating revenues (expenses)	(4,615)	-	-	-	-	(4,615)
Income (loss) before transfers	(15,797)	156	649	3,132	18,906	7,046
Transfers (to) other funds	-	-	(31,734)	(7,814)	-	(39,548)
Transfers from other funds	16,545	3,150	-	-	19,853	39,548
Change in net position	748	3,306	(31,085)	(4,682)	38,759	7,046
Total net position, July 1	20,028	66,614	179,952	48,532	194,764	509,890
Total net position, End of period	\$ 20,776	\$ 69,920	\$ 148,867	\$ 43,850	\$ 233,523	\$ 516,936

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2019

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2019
Cash flows from operating activities:						
Receipts from customers	\$ 10,779	\$ 2,053	\$ 44,375	\$ 36,815	\$ 174,784	\$ 268,806
Receipts from federal government	10,965	-	-	-	-	10,965
Receipts from other funds	26,217	-	-	-	-	26,217
Other miscellaneous receipts	3,452	3	-	-	157	3,612
Acquisition of mortgage loans	-	(1,571)	(12,466)	-	(486,102)	(500,139)
Payments of service release premiums	(20,151)	-	-	-	-	(20,151)
Payments to service mortgages	-	(106)	(101)	(78)	(421)	(706)
Payments to suppliers	(5,736)	(11)	(5,116)	-	-	(10,863)
Payments to other funds	-	-	(1,248)	-	(24,969)	(26,217)
Payments to or for employees	(16,656)	-	-	-	-	(16,656)
Net cash provided (used) by operating activities	8,870	368	25,444	36,737	(336,551)	(265,132)
Cash flows from non-capital financing activities:						
Operating grants received	234,728	-	-	-	-	234,728
Transfers in (out)	16,545	3,150	(13,352)	(7,814)	1,471	-
Proceeds from sale of bonds	-	-	-	-	564,461	564,461
Operating grants paid	(258,862)	-	-	-	-	(258,862)
Cost of issuance paid	-	-	-	-	(4,032)	(4,032)
Principal payments	-	-	(56,575)	(35,300)	(114,475)	(206,350)
Interest paid	-	-	(8,087)	(8,643)	(52,547)	(69,277)
Net cash provided (used) by non-capital financing activities	(7,589)	3,150	(78,014)	(51,757)	394,878	260,668
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	735	20,095	24,925	69,026	114,781
Purchases of investments	-	-	(5,770)	(12,515)	(35,114)	(53,399)
Investment interest received	323	188	1,978	545	3,039	6,073
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	9	140	86	722	957
Net cash provided by investing activities	323	932	16,443	13,041	37,673	68,412
Net increase (decrease) in cash and cash equivalents	1,604	4,450	(36,127)	(1,979)	96,000	63,948
Cash and cash equivalents, July 1	35,862	13,031	62,399	20,148	151,304	282,744
Cash and cash equivalents, End of period	\$ 37,466	\$ 17,481	\$ 26,272	\$ 18,169	\$ 247,304	\$ 346,692

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Nine Months Ended March 31, 2019

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 3/31/2019
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (11,182)	\$ 156	\$ 649	\$ 3,132	\$ 18,906	\$ 11,661
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(5,436)	(198)	532	-	13	(5,089)
Decrease in mortgage interest receivable	-	1	983	1,063	249	2,296
(Increase) decrease in mortgage loans receivable	-	636	21,796	27,111	(373,060)	(323,517)
(Increase) in due from federal government	(249)	-	-	-	-	(249)
(Increase) in unearned service release premiums	(18,972)	-	-	-	-	(18,972)
Increase (decrease) in interfund payables	26,217	-	(1,248)	-	(24,969)	-
Increase in accounts payable	18,906	9	147	904	4,020	23,986
(Decrease) in due to primary government	(91)	-	-	-	-	(91)
Investment income included as operating revenue	(323)	(236)	(2,300)	(1,125)	(6,413)	(10,397)
Interest expense included as operating expense	-	-	4,885	5,652	40,671	51,208
Issuance cost included as operating expense	-	-	-	-	4,032	4,032
Total adjustments	<u>20,052</u>	<u>212</u>	<u>24,795</u>	<u>33,605</u>	<u>(355,457)</u>	<u>(276,793)</u>
Net cash provided (used) by operating activities	<u>\$ 8,870</u>	<u>\$ 368</u>	<u>\$ 25,444</u>	<u>\$ 36,737</u>	<u>\$ (336,551)</u>	<u>\$ (265,132)</u>
Noncash investing, capital, and financing activities:						
Increase in fair value of investments	-	32	448	376	888	1,744
Total noncash investing, capital, and financing activities	<u>\$ -</u>	<u>\$ 32</u>	<u>\$ 448</u>	<u>\$ 376</u>	<u>\$ 888</u>	<u>\$ 1,744</u>

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no down payment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the “Working Agreements”). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA’s security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA’s rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent’s privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the “O.A. Guide”), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA no longer has servicing agreements with outside entities. As of August 1, 2018, all servicing of THDA Program Loans is handled by Volunteer Mortgage Loan Servicing, a division of THDA. See Appendix G under the heading “Loan Servicing” for more information.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove and in Appendix G.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the “General Residential Finance Program Bond Resolution.”

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

“*Account*” means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

“*Accountant*” means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

“*Act*” means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

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

“*Authorized Officer*” means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

“*Bond*” or “*Bonds*” means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

“*Bond Counsel's Opinion*” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

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

“*Bond Reserve Fund*” means the Bond Reserve Fund established pursuant to Section 5.1.

“*Bond Reserve Fund Requirement*” means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

“*Code*” means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

- (1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;
- (2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide down payment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

"Program Security" means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

"Projected Cash Flow Statement" means a Certificate delivered pursuant to the provisions of Section 7.11.

"Rating Agency" means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody's and S&P.

"Redemption Account" means the Redemption Account which is established and created in the Revenue Fund pursuant to this Resolution.

"Redemption Date" means the date upon which Bonds are to be called for redemption pursuant to this Resolution.

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

"Refunding Bond" means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

"Resolution" means this Resolution and any amendments or supplements made in accordance with its terms.

"Revenue Fund" means the Revenue Fund established pursuant to Section 5.1.

"Revenues" means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

"S&P" means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, and any successor.

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

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

"State" means the State of Tennessee.

"Supplemental Resolution" means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

"THDA" means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

"Trustee" means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI

REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

- (1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or
- (2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or
- (3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

- (1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;
- (2) by bringing suit upon the Bonds;
- (3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of or Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$663,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

Amount

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Outstanding as of July 31, 2019 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A1	December 23, 2009	\$ 100,000,000	\$ --	\$ 1,295,000	3.96%
2010-B/ 2009-B, Subseries B-2	November 10, 2011	40,000,000	60,000,000	33,770,000	3.15
2011-A	April 14, 2011	40,000,000	60,000,000	9,665,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	39,350,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,290,000	34,710,000	34,870,000	3.01
2015-A	May 28, 2015	<u>163,850,000</u>	<u>--</u>	<u>85,355,000</u>	2.78
TOTAL		<u>\$ 449,140,000</u>	<u>\$ 214,710,000</u>	<u>\$ 204,305,000</u>	

(1) Bond yield.

As of June 30, 2019 (unaudited), 2,392 mortgage loans in the approximate aggregate principal amount of \$195,997,831 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$567,690,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of July 31, 2019 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2010-1	October 13, 2010	120,700,000	\$ 25,365,000	3.57
2011-1	December 1, 2011	141,255,000	37,025,000	3.80
2012-1	July 19, 2012	133,110,000	49,405,000	3.26
2012-2	November 15, 2012	97,625,000	38,860,000	2.92
TOTAL		<u>\$ 492,690,000</u>	<u>\$ 150,655,000</u>	

(1) Bond yield.

As of June 30, 2019 (unaudited), 4,069 mortgage loans in the approximate aggregate principal amount of \$184,845,400 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program)(the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets relating to bond proceeds, including mortgage loans, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution. Certain assets and investments not related to bond proceeds remain in the General Fund of the 1974 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. THDA established eligibility requirements for the mortgage credit certificate program and loans assisted with a mortgage credit certificate may not be funded with proceeds of qualified mortgage bonds such as the Issue 2019-3 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets. These assets are invested only in investments authorized by the Act, THDA's investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA's investment of THDA assets to the Executive Director of THDA. For information related to THDA's investment of assets held under the General Resolution, see FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM—Investments.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

**RESIDENTIAL FINANCE PROGRAM LOAN
ORIGINATING AND SERVICING PROCEDURES****General**

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2019-3 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

Effective as of May 27, 2019, THDA income limits will range from \$64,500 to \$112,000 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

THDA is self-servicing its entire mortgage loan portfolio through Volunteer Mortgage Loan Servicing ("VMLS"), a division of THDA. VMLS began servicing operations as of November 1, 2016, with the servicing of a small THDA mortgage loan portfolio previously serviced by Pinnacle Bank. Since June 1, 2018, all THDA Originating Agents have been transferring all servicing for new THDA Program Loans directly to VMLS. The remaining servicing portfolio, previously serviced by U.S. Bank, was transferred to THDA on August 1, 2018; in conjunction with such transfer THDA paid \$23,376,000 to U.S. Bank with funds withdrawn from the lien of the 1985 General Resolution in accordance with its terms as a one-time servicing release and transfer fee.

September 30, 2019

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$150,000,000 Issue 2019-3 (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$150,000,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2019-3 (Non-AMT) (the "Issue 2019-3 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2019-3 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on July 23, 2019, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on September 4, 2019 (together, the "Supplemental Resolution," and together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2019-3 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2019-3 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2019-3 Bonds are being issued to refund certain outstanding obligations of THDA and to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2019-3 Bonds in order that interest on the Issue 2019-3 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2019-3 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.

2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.

3. The Issue 2019-3 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2019-3 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2019-3 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.

6. The Issue 2019-3 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.

7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2019-3 Bonds is excluded from gross income of the owners thereof for federal income tax purposes and (ii) interest on the Issue 2019-3 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals under the alternative minimum tax provisions of the Code.

8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2019-3 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2019-3 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2019-3 Bonds may have to take interest on such Issue 2019-3 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2019-3 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2019-3 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2019-3 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES*

Delinquencies and Foreclosures as of March 31, 2019

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.81%, based on a total of 18,476 Program Loans as of March 31, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2019, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	287	\$ 28,828,398	1.83%	1.01% ⁽⁴⁾
VA Guaranteed	2	155,642	0.52	0.69
Privately Insured	26	2,034,490	3.96	0.63
USDA/RD Guaranteed.....	16	990,600	1.60	(5)
Uninsured.....	4	320,540	0.55	(5)
TOTAL.....	335	\$ 32,329,669 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.09%, based on a total of 18,476 Program Loans as of March 31, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2019, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	670	\$ 66,301,938	4.27%	1.40% ⁽⁴⁾
VA Guaranteed	10	956,378	2.61	1.11
Privately Insured	27	2,268,310	4.12	0.88
USDA/RD Guaranteed.....	30	2,091,767	2.99	(5)
Uninsured.....	19	1,229,185	2.59	(5)
TOTAL.....	756	\$ 72,847,577 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

*Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bond issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding loans financed pursuant to the 1974 General Resolution that were transferred to the General Resolution as of June 30, 2014.

The overall rate of Program Loans in foreclosure was 0.20%, based on a total of 18,476 Program Loans as of March 31, 2019 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2019, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	29	\$ 2,483,381	0.18%	0.44% ⁽⁴⁾
VA Guaranteed	1	26,788	0.26	0.70
Privately Insured	3	363,121	0.46	0.34
USDA/RD Guaranteed.....	3	169,886	0.30	(5)
Uninsured.....	1	74,107	0.14	(5)
TOTAL.....	37	\$ 3,117,283 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

Delinquencies and Foreclosures as of December 31, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.81%, based on a total of 17,764 Program Loans as of December 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	444	\$ 46,663,618	2.96 %	0.96% ⁽⁴⁾
VA Guaranteed	3	252,595	0.83	0.79
Privately Insured	19	1,554,721	2.81	0.65
USDA/RD Guaranteed.....	26	1,762,360	2.60	(5)
Uninsured.....	8	512,953	1.11	(5)
TOTAL.....	500	\$ 50,746,246 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.55%, based on a total of 17,764 Program Loans as of December 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance ⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	692	\$ 66,450,810	4.61 %	1.59 % ⁽⁴⁾
VA Guaranteed	13	982,060	3.59	1.22
Privately Insured	36	2,839,047	5.32	0.92
USDA/RD Guaranteed.....	40	2,611,826	4.00	(5)
Uninsured.....	27	1,478,036	3.76	(5)
TOTAL.....	<u>808</u>	<u>\$ 74,361,778⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.29%, based on a total of 17,764 Program Loans as of December 31, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of December 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2018, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance ⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	41	\$ 3,903,225	0.27 %	0.56 % ⁽⁴⁾
VA Guaranteed	1	26,788	0.28	0.69
Privately Insured	4	385,659	0.59	0.36
USDA/RD Guaranteed.....	4	252,649	0.40	(5)
Uninsured.....	1	74,107	0.14	(5)
TOTAL.....	<u>51</u>	<u>\$ 4,642,429⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of September 30, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 3.04%, based on a total of 16,597 Program Loans as of September 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National

Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	426	\$ 41,442,638	3.05%	1.15% ⁽⁴⁾
VA Guaranteed	7	670,961	2.11	0.87
Privately Insured	30	2,407,682	3.68	0.68
USDA/RD Guaranteed.....	36	2,582,641	3.83	(5)
Uninsured.....	5	308,508	0.93	(5)
TOTAL.....	<u>504</u>	<u>\$ 47,412,430⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2018.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.34%, based on a total of 16,597 Program Loans as of September 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	618	\$ 59,661,632	4.42%	1.55% ⁽⁴⁾
VA Guaranteed	11	714,521	3.31	1.19
Privately Insured	48	3,461,082	5.89	0.94
USDA/RD Guaranteed.....	31	2,170,545	3.30	(5)
Uninsured.....	12	859,273	2.24	(5)
TOTAL.....	<u>720</u>	<u>\$ 66,867,054⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.26%, based on a total of 16,597 Program Loans as of September 30, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2018 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2018, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	33	\$ 3,103,475	0.24 %	0.53% ⁽⁴⁾
VA Guaranteed	2	132,797	0.60	0.70
Privately Insured	2	93,072	0.25	0.34
USDA/RD Guaranteed.....	4	252,649	0.43	(5)
Uninsured.....	2	195,224	0.37	(5)
TOTAL.....	43	\$ 3,777,217 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of June 30, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.92%, based on a total of 15,717 Program Loans as of June 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	256	\$ 25,949,023	1.94 %	0.90% ⁽⁴⁾
VA Guaranteed	1	91,632	0.33	0.72
Privately Insured	17	1,360,302	1.97	0.64
USDA/RD Guaranteed.....	22	1,528,002	2.51	(5)
Uninsured.....	6	540,523	1.19	(5)
TOTAL.....	302	\$ 29,469,483 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.28%, based on a total of 15,717 Program Loans as of June 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	550	\$ 50,668,667	4.18 %	1.26% ⁽⁴⁾
VA Guaranteed	14	683,883	4.64	1.11
Privately Insured	59	3,487,636	6.85	0.95
USDA/RD Guaranteed.....	36	2,377,390	4.10	(5)
Uninsured.....	14	712,446	2.77	(5)
TOTAL.....	673	\$ 57,930,022 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.67%, based on a total of 15,717 Program Loans as of June 30, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of June 30, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2018, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	92	\$ 7,868,238	0.70 %	0.45% ⁽⁴⁾
VA Guaranteed	3	253,872	0.99	0.75
Privately Insured	4	189,208	0.46	0.37
USDA/RD Guaranteed.....	6	295,347	0.68	(5)
Uninsured.....	1	19,835	0.20	(5)
TOTAL.....	106	\$ 8,626,500 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.



Tennessee Housing
Development Agency

In the opinion of Bond Counsel, under existing federal laws and assuming continuing compliance by THDA with federal tax law requirements, interest on the Issue 2019-4 Bonds is excluded from gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that interest on the Issue 2019-4 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals under the alternative minimum tax provisions of the Internal Revenue Code of 1986 as amended (the "Code"). In addition, Bond Counsel is of the opinion that, under existing laws of the State of Tennessee, the interest on the Issue 2019-4 Bonds is exempt from the income tax imposed by the State of Tennessee on interest income; however, the Issue 2019-4 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee. See "TAX MATTERS" herein.

TENNESSEE HOUSING DEVELOPMENT AGENCY**Residential Finance Program Bonds****\$200,000,000 Issue 2019-4 (Non-AMT)****Dated: Date of Delivery****Due: As shown on inside front cover**

The Issue 2019-4 Bonds (the "Issue 2019-4 Bonds" or the "Offered Bonds") are being issued only as fully registered bonds without coupons in book-entry form and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Offered Bonds will be made. So long as Cede & Co. or another nominee of DTC is the registered owner of the Offered Bonds, payments of the principal of, premium, if any, and interest on the Offered Bonds will be made directly to DTC. Disbursement of such payments to DTC's Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of the Direct Participants and Indirect Participants (as herein defined). Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. See Appendix F "BOOK-ENTRY-ONLY SYSTEM." The Offered Bonds will be issued in denominations of \$5,000 and integral multiples thereof. Interest on the Offered Bonds accrues from the dated date of the Offered Bonds and is payable on July 1, 2020, and semi-annually on each January 1 and July 1 thereafter, as more fully described herein. The Record Date for payment of interest on the Offered Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

The Offered Bonds are subject to redemption prior to their stated maturities at the times, at the redemption prices and under the conditions set forth under the caption "DESCRIPTION OF OFFERED BONDS."

The Offered Bonds are special limited obligations of the Tennessee Housing Development Agency ("THDA") payable only from the revenues and assets of THDA pledged under the Resolution (as defined herein) for the payment of the principal or redemption price of and interest on Offered Bonds.

THDA has no taxing power. The Offered Bonds are not a debt, liability or obligation of the State of Tennessee (the "State") or any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, are pledged for the payment of the principal of or interest on the Offered Bonds.

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

The Offered Bonds are being offered when, as and if issued by THDA, subject to delivery of the opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York, and certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller. It is expected that the Offered Bonds will be available for book-entry delivery through DTC on or about December 11, 2019.

RBC CAPITAL MARKETS**CITIGROUP****RAYMOND JAMES****J.P. MORGAN WELLS FARGO SECURITIES****WILEY BROTHERS—AINTREE CAPITAL, LLC**

**TENNESSEE HOUSING DEVELOPMENT AGENCY
RESIDENTIAL FINANCE PROGRAM BONDS**

Maturities, Amounts, Interest Rates and Prices

\$200,000,000 Issue 2019-4 (Non-AMT)

\$44,825,000 Serial Bonds

<u>Year</u>	<u>Principal Amount Due January 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>	<u>Principal Amount Due July 1</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
2020				\$ 730,000	1.20 %	880461D47
2021	\$ 1,470,000	1.25%	880461D54	1,650,000	1.30	880461D62
2022	1,660,000	1.40	880461D70	1,680,000	1.40	880461D88
2023	1,695,000	1.50	880461D96	1,710,000	1.50	880461E20
2024	1,725,000	1.60	880461E38	1,745,000	1.60	880461E46
2025	1,760,000	1.70	880461E53	1,775,000	1.70	880461E61
2026	1,800,000	1.80	880461E79	1,815,000	1.85	880461E87
2027	1,840,000	1.90	880461E95	1,860,000	1.95	880461F29
2028	1,880,000	2.00	880461F37	1,905,000	2.05	880461F45
2029	1,925,000	2.10	880461F52	1,950,000	2.15	880461F60
2030	1,975,000	2.20	880461F78	2,000,000	2.25	880461F86
2031	2,025,000	2.30	880461F94	2,055,000	2.35	880461G28
2032	2,085,000	2.40	880461G36	2,110,000	2.45	880461G44

\$155,175,000 Term Bonds

<u>Maturity Date</u>	<u>Principal Amount Due</u>	<u>Interest Rate</u>	<u>CUSIP Number⁽¹⁾</u>
July 1, 2034	\$ 8,755,000	2.65 %	880461G51
July 1, 2039	24,475,000	2.90	880461G69
July 1, 2044	19,345,000	3.05	880461G77
July 1, 2049	18,600,000	3.10	880461G85
January 1, 2050 (PAC)	84,000,000	3.50	880461G93

PRICE OF ISSUE 2019-4 BONDS DUE JANUARY 1, 2050 (PAC): 108.578%

PRICE OF ALL REMAINING ISSUE 2019-4 BONDS: 100.000%

⁽¹⁾ The CUSIP Numbers have been assigned to this issue by an organization not affiliated with THDA and are included solely for the convenience of the bondholders. Neither THDA nor the Underwriters shall be responsible for the selection or use of these CUSIP Numbers nor is any representation made as to their correctness on the bonds or as indicated herein.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement (this "Official Statement"), in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by THDA or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Offered Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by THDA and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by THDA, is not to be construed as a representation of THDA. The Underwriters have included the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors of the Offered Bonds under the federal securities laws as applied to the facts and circumstances of the offering of the Offered Bonds, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of THDA since the date hereof. The Offered Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the inside cover page, and such public offering prices may be changed from time to time by the Underwriters.

THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE OFFERED BONDS. SUCH ACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
TENNESSEE HOUSING DEVELOPMENT AGENCY
Residential Finance Program Bonds
\$200,000,000 Issue 2019-4 (Non-AMT)

INTRODUCTION

This Official Statement (the “Official Statement”) provides certain information in connection with the issuance by the Tennessee Housing Development Agency (“THDA”) of its Residential Finance Program Bonds, Issue 2019-4 in the aggregate principal amount of \$200,000,000 (the “Issue 2019-4 Bonds” or the “Offered Bonds”).

THDA is authorized to issue and sell its bonds and to conduct its other activities by Tennessee Code Annotated Sections 13-23-101 et seq., as amended (the “Act”). The issuance and sale of the Offered Bonds is authorized by the General Residential Finance Program Bond Resolution, adopted by THDA on January 29, 2013, as amended and supplemented (the “General Resolution” or the “2013 General Resolution”) and by a Resolution adopted by THDA on September 24, 2019, as amended and supplemented by the Bond Finance Committee of THDA (the “Bond Finance Committee”) on November 6, 2019 (the “Issue 2019-4 Supplemental Resolution”). The General Resolution and the Issue 2019-4 Supplemental Resolution are herein collectively referred to as the “Resolution.”

The Act requires submission to the Bond Finance Committee of THDA, which consists of the Chairman of THDA and the Comptroller of the Treasury of the State of Tennessee, the Secretary of State of the State of Tennessee, the State Treasurer of the State of Tennessee, and the Commissioner of Finance and Administration of the State of Tennessee, of a plan of financing pertaining to the sale of any bonds or notes by THDA and to request that the Bond Finance Committee sell such bonds or notes on behalf of THDA, under the terms and conditions set forth in the Act. The Bond Finance Committee approved the plan of financing with respect to Issue 2019-4 Bonds on September 20, 2019.

The Act does not permit THDA to have outstanding bonds and notes in an aggregate principal amount exceeding \$2,930,000,000, excluding bonds and notes which have been refunded. As of September 30, 2019 (unaudited), Bonds in the aggregate principal amount of \$2,300,485,000 were outstanding under the General Resolution, bonds in the aggregate principal amount of \$199,385,000 were outstanding under THDA’s Housing Finance Program Resolution (the “2009 General Resolution”), and bonds in the aggregate principal amount of \$145,415,000 were outstanding under THDA’s Homeownership Program Resolution (the “1985 General Resolution”). No bonds are outstanding under THDA’s Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”). For more information see “Other Financings—Housing Bond Resolution (Mortgage Finance Program)” in Appendix E.

Bonds issued under the General Resolution, including the Offered Bonds, are and will be special limited obligations of THDA, payable solely from the revenues and assets of THDA pledged under the General Resolution for the payment of the principal and redemption price thereof and the interest thereon, including the Bond Reserve Fund established pursuant to the General Resolution, as more fully described herein under the caption “SECURITY AND SOURCES OF PAYMENT OF BONDS”. All bonds issued under the General Resolution, including the Offered Bonds, are equally and ratably secured by the pledges and covenants contained therein and all such bonds, including the Offered Bonds, are sometimes referred to herein as the “Bonds”. The security interest created by the pledge of the General Resolution is governed by Tennessee Code Annotated Sections 9-22-101 et seq., as amended, relating to the perfection, priority and enforcement of public pledges and liens (the “Public Pledge Act”). Security interests governed under the Public Pledge Act are expressly exempt from Tennessee’s codification of Article 9 of the Uniform Commercial Code.

The revenues and assets of THDA pledged under the General Resolution are not pledged as security for bonds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. The revenues and assets of THDA pledged under the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution, respectively, are not pledged as security for Bonds issued under the General Resolution including the Offered Bonds. See Appendix E for descriptions of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution.

THDA may, in the future, elect to issue bonds under the General Resolution or under the 1974 General Resolution, the 1985 General Resolution and/or the 2009 General Resolution. No assurances can be given as to whether THDA may elect to issue bonds under any one of the referenced general resolutions in the future or which of the referenced general resolutions may be selected. Any mortgage loans and investments financed with the proceeds of any new bonds issued under any of the referenced general resolutions, except for the General Resolution, and the revenues therefrom will not be pledged to the payment of Bonds under the General Resolution, including the Offered Bonds.

THDA has no taxing power. The Bonds are not a debt, liability or obligation of the State or of any political subdivision thereof except THDA. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof is pledged for the payment of principal or interest on the Bonds.

THDA expects that the proceeds of the Issue 2019-4 Bonds will be used to: (i) refund certain bonds issued and outstanding under the 1985 General Resolution, the 2009 General Resolution, or the 2013 General Resolution (collectively, the "Prior Bonds"), (ii) finance first lien single-family Program Loans (or participations therein) for single-family, owner-occupied housing (one to four dwelling units); (iii) pay capitalized interest, if any; (iv) pay Costs of Issuance, Underwriters' Fees and other transaction costs; and (v) make a deposit to the Bond Reserve Fund, if required. See "APPLICATION OF BOND PROCEEDS." The terms and conditions of Program Loans, including Program Loans financed with amounts made available by the issuance of the Offered Bonds and the refunding of the Prior Bonds, are described herein under the caption "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" and in Appendix G.

As a result of the refunding of the Prior Bonds, mortgage loans previously allocable to certain of the Prior Bonds (all of the outstanding Issue 2010-B Bonds issued under the 2009 General Resolution, the "Issue 2010-B Bonds") in an expected aggregate outstanding amount of approximately \$35,262,681 (including participations therein) will be allocated to the Offered Bonds (the "Transferred Program Loans"). See "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS" for information about the Transferred Program Loans. In addition, other investments allocable to the Issue 2010-B Bonds in the projected amount of approximately \$3,419,251 will be transferred to accounts established for the Offered Bonds under the General Resolution (the "Transferred Investments"). It is anticipated that the Issue 2010-B Bonds will be redeemed prior to maturity on January 1, 2020, at the applicable redemption prices thereof plus accrued interest. No assurance can be provided that the Issue 2010-B Bonds will actually be refunded.

As used herein, the term "Program Loans" refers to all mortgage loans (including participations therein) financed under the General Resolution, including the Transferred Program Loans and mortgage loans (including participations therein) to be financed with proceeds of the Offered Bonds, and the phrase "Program Loans allocable to (or allocated to) the Offered Bonds" shall include the Transferred Program Loans as well as new Program Loans (including participations therein) financed with the proceeds of the Offered Bonds.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the then existing Program Loan Procedures of THDA. The current Program Loan Procedures are described or otherwise referred to in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2019-4 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple in real property located in the State. THDA does not intend to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance. While the Issue 2019-4 Supplemental Resolution provides that all Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Currently, THDA's Program Loan portfolio under the General Resolution includes only first-lien, fixed-interest rate, single-family Program Loans with equal monthly installments of principal and interest. As of September 30, 2019 (unaudited), 20,396 Program Loans were outstanding under the General Resolution having an aggregate outstanding principal balance of approximately \$2,229,173,093. Based on the outstanding principal balance of Program Loans as of September 30, 2019 (unaudited), approximately 88.90% were FHA insured, approximately 2.33% were VA guaranteed, approximately 2.18% were insured by private mortgage insurance companies, approximately 4.26% were guaranteed by United States Department of Agriculture, Rural Development ("USDA/RD"), and approximately 2.33% were uninsured (i.e. Program Loans for which the borrower has at least a 22% equity interest in the residence on the date of closing, or at least a 25% equity interest in the residence on the date of closing for Program Loans closed prior to July 29, 1999, or Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance). See "RESIDENTIAL FINANCE PROGRAM LOANS – Residential Finance Program Portfolio Data" and Appendix B under the heading "Private Mortgage Insurance Programs".

U.S. Bank National Association (the "Trustee") is trustee and paying agent for all Bonds issued under the General Resolution.

A brief description of the Offered Bonds, THDA and its Program Loans follows, together with summaries of the terms of the Bonds, and certain provisions of the Act, the General Resolution, the Issue 2019-4 Supplemental Resolution and other activities of THDA. Such summaries do not purport to be complete and all such summaries and references to the Act and the Issue 2019-4 Supplemental Resolution are qualified in their entirety by reference to each such document, copies of which are available from THDA or the Trustee. The General Resolution is attached hereto as Appendix D "2013 GENERAL RESOLUTION". Certain capitalized terms utilized herein are defined in Appendix D hereto.

DESCRIPTION OF OFFERED BONDS

General

The Offered Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 principal amount and any integral multiple thereof and will be available in book-entry only form. Purchasers of Offered Bonds will not receive certificates representing their interest in the Offered Bonds. The Depository Trust Company, ("DTC"), New York, New York, will act as securities depository for the Offered Bonds. The ownership of one fully registered certificated bond, without coupons, for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC via the FAST system. See Appendix F "BOOK-ENTRY-ONLY SYSTEM" for a description of the DTC book-entry only system.

The Offered Bonds will mature on the dates and bear interest from the date of delivery at the rates indicated on the inside front cover page of this Official Statement. Interest on the Offered Bonds accrues from the dated date of the Issue 2019-4 Bonds and is payable on July 1, 2020, and semi-annually on each January 1 and July 1 thereafter on the basis of a 360-day year of twelve 30-day months.

Redemption Provisions for Offered Bonds

Sinking Fund Redemption

The Issue 2019-4 Bonds maturing on July 1, 2034, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2033, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

Sinking Fund Payments for Issue 2019-4 Term Bonds Due July 1, 2034

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2033	\$ 2,140,000	\$ 2,170,000
2034	2,205,000	2,240,000 (maturity)

The Issue 2019-4 Bonds maturing on July 1, 2039, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2035, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2019-4
Term Bonds Due July 1, 2039**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2035	\$ 2,275,000	\$ 2,310,000
2036	2,350,000	2,385,000
2037	2,420,000	2,465,000
2038	2,505,000	2,545,000
2039	2,590,000	2,630,000 (maturity)

The Issue 2019-4 Bonds maturing on July 1, 2044, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2040, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2019-4
Term Bonds Due July 1, 2044**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2040	\$ 2,675,000	\$ 2,720,000
2041	2,575,000	1,560,000
2042	1,570,000	1,600,000
2043	1,625,000	1,655,000
2044	1,685,000	1,680,000 (maturity)

The Issue 2019-4 Bonds maturing on July 1, 2049, are subject to redemption in part by lot on each January 1 and July 1 beginning January 1, 2045, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2019-4
Term Bonds Due July 1, 2049**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2045	\$ 1,710,000	\$ 1,745,000
2046	1,775,000	1,805,000
2047	1,845,000	1,875,000
2048	1,910,000	1,945,000
2049	1,980,000	2,010,000 (maturity)

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The Issue 2019-4 Bonds maturing on January 1, 2050 (the "PAC Bonds"), are subject to redemption in part by lot on each January 1 and July 1 beginning July 1, 2020, at a redemption price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amount for each of the dates set forth below:

**Sinking Fund Payments for Issue 2019-4
PAC Term Bonds Due January 1, 2050**

<u>Year</u>	<u>Amount Due January 1</u>	<u>Amount Due July 1</u>
2020		\$ 600,000
2021	\$ 785,000	800,000
2022	815,000	830,000
2023	845,000	860,000
2024	880,000	895,000
2025	910,000	930,000
2026	945,000	965,000
2027	980,000	1,000,000
2028	1,020,000	1,035,000
2029	1,055,000	1,075,000
2030	1,095,000	1,115,000
2031	1,140,000	1,160,000
2032	1,180,000	1,205,000
2033	1,225,000	1,250,000
2034	1,275,000	1,295,000
2035	1,320,000	1,345,000
2036	1,370,000	1,395,000
2037	1,425,000	1,450,000
2038	1,475,000	1,505,000
2039	1,530,000	1,560,000
2040	1,590,000	1,620,000
2041	1,650,000	1,680,000
2042	1,715,000	1,745,000
2043	1,780,000	1,810,000
2044	1,845,000	1,880,000
2045	1,915,000	1,950,000
2046	1,985,000	2,025,000
2047	2,060,000	2,100,000
2048	2,140,000	2,180,000
2049	2,220,000	2,265,000
2050	2,305,000 (maturity)	

Optional Redemption. Except as otherwise described in the following paragraph, the Issue 2019-4 Bonds maturing on and after July 1, 2029, are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part, at any time, on or after January 1, 2029, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

The PAC Bonds are subject to redemption at the option of THDA prior to their maturity, either as a whole or in part, at any time on or after January 1, 2029, at the Redemption Prices set forth below (expressed as a percentage of the principal amount to be redeemed) plus accrued interest to the date of redemption:

<u>Redemption Period</u>	<u>Redemption Price</u>
January 1, 2029 to June 30, 2029	102.344 %
July 1, 2029 to December 31, 2029	102.051
January 1, 2030 to June 30, 2030	101.738
July 1, 2030 to December 31, 2030	101.403
January 1, 2031 to June 30, 2031	101.051
July 1, 2031 to December 31, 2031	100.692
January 1, 2032 and thereafter	100.000

Special Mandatory Redemption of PAC Bonds. The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a redemption price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2019-4 Principal Payments (as defined below). Any Excess 2019-4 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing July 1, 2020; provided, however, PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2019-4 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Offered Bonds are equal to or less than 400% PSA (as defined below under “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds”), as determined by THDA, then available Excess 2019-4 Principal Payments shall first be applied to redeem PAC Bonds up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, other than the PAC Bonds; and

SECOND, if principal prepayments on the Program Loans allocable to the Offered Bonds are in excess of 400% PSA, as determined by THDA, then available Excess 2019-4 Principal Payments up to an amount correlating to the Planned Amortization Amount (as defined below) for the PAC Bonds shall first be applied to redeem PAC Bonds and, subject to the application of the 10-year rule as described below under the heading “–Mandatory Redemption – 10 Year Rule,” the remainder may be applied to any purpose permissible under the Resolution, including to redeem any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an “Excess Principal PAC Bond Redemption”); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of the available Excess 2019-4 Principal Payments which is in excess of 400% PSA, and (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the then Outstanding PAC Bonds’ proportionate amount of all Issue 2019-4 Bonds then Outstanding.

“Excess 2019-4 Principal Payments” means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans allocable to the Offered Bonds to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Offered Bonds.

“Planned Amortization Amount” means the dollar amount applicable to the PAC Bonds for each Interest Payment Date set forth below. The Planned Amortization Amount represents the cumulative principal amount of the PAC Bonds assumed to be redeemed from Excess 2019-4 Principal Payments as of a particular Interest Payment Date based on receipt of principal prepayments at a 100% PSA prepayment rate for Program Loans allocable to the Offered Bonds. See “ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds” for a description of PSA prepayment rates.

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The Planned Amortization Amounts for the PAC Bonds (which assume the full origination of Program Loans with proceeds allocable to the Offered Bonds in accordance with the expected schedule for such origination and receipt of principal prepayments on the Program Loans allocable to the Offered Bonds at a rate equal to 100% of the PSA prepayment rate), as of each payment date are set forth below:

PAC Bonds Planned Amortization Schedules

<u>Date</u>	<u>PAC Bonds Planned Amortization Amount</u>
July 1, 2020	\$ 1,700,000
January 1, 2021	4,145,000
July 1, 2021	7,540,000
January 1, 2022	11,815,000
July 1, 2022	16,885,000
January 1, 2023	22,445,000
July 1, 2023	27,960,000
January 1, 2024	33,250,000
July 1, 2024	38,280,000
January 1, 2025	43,070,000
July 1, 2025	47,615,000
January 1, 2026	51,925,000
July 1, 2026	56,010,000
January 1, 2027	59,870,000
July 1, 2027	63,510,000
January 1, 2028	66,945,000
July 1, 2028	70,170,000
January 1, 2029	73,195,000
July 1, 2029	75,910,000
January 1, 2030	78,230,000
July 1, 2030	80,200,000
January 1, 2031	81,880,000
July 1, 2031	83,295,000
January 1, 2032	84,000,000

Each Planned Amortization Amount, as set forth in the table above, is subject to proportionate reduction to the extent the PAC Bonds are redeemed from amounts on deposit in the Issue 2019-4 Bonds Subaccount of the Loan Fund not applied to finance Program Loans.

For a description of the impact on the weighted average life of the PAC Bonds on the receipt of prepayments on the Program Loans allocable to the Offered Bonds at various speeds, see "ASSUMPTIONS REGARDING OFFERED BONDS – Average Life of PAC Bonds."

Special Optional Redemption of the Offered Bonds, including Cross Calls. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part, at any time prior to maturity, in accordance with the provisions of the Resolution, and in an amount equal to amounts available for such purposes from (i) proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans as described below under the heading "DESCRIPTION OF OFFERED BONDS – Redemption of Offered Bonds from Unexpended Proceeds"; (ii) except as otherwise described under the headings "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds", and "– Mandatory Redemption – 10 Year Rule", repayments and prepayments of Program Loans allocated to the Offered Bonds in excess of regularly scheduled debt service payments on the Offered Bonds; (iii) repayments and prepayments of Program Loans financed with the proceeds of any other Bonds issued under the Resolution, subject to limitations contained in the Internal Revenue Code of 1986, as amended (the, "Code"), (iv) other amounts on deposit in the Revenue Fund of the Resolution in excess of the amounts then required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Fund Requirement; provided, however, that PAC Bonds (a) are only subject to redemption under clause (ii) above as described under the heading "DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds", and (b) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of the PAC Bonds to exceed the Planned Amortization Amount shown above in the PAC Bonds Amortization Schedule. The

Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans.

The date of redemption shall be determined by the Trustee upon the direction of THDA, subject to the provisions of and in accordance with the Resolution. The Offered Bonds to be so redeemed shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the redemption price of the PAC Bonds in the event of a redemption described in clause (i) of the preceding paragraph shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be so redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amount of all Offered Bonds then Outstanding in the event of a redemption pursuant to clause (i) of the preceding paragraph. See “ASSUMPTIONS REGARDING OFFERED BONDS – Prepayments” and “ASSUMPTIONS REGARDING OFFERED BONDS – THDA Redemption Practices”.

Mandatory Redemption – 10 Year Rule. To the extent not required to make regularly scheduled principal payments on the Offered Bonds (including Sinking Fund Payments) or otherwise required to be applied to the redemption of the PAC Bonds, repayments and prepayments of principal of the Program Loans or portions thereof financed with proceeds of the Offered Bonds (directly, or through a series of refundings) shall be applied to redeem Offered Bonds in such principal amounts as are required to satisfy the requirements of the Code. The redemption price of Offered Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable. Subject to the redemption procedures under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” the Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may be redeemed in an amount that exceeds the related Planned Amortization Amount shown above in the PAC Bonds Planned Amortization Schedule only if there are no other Offered Bonds outstanding.

THDA will, to the extent required by the Code, redeem Offered Bonds from prepayments and repayments on the Program Loans (or portions thereof) financed with proceeds of the Offered Bonds. Commencing on November 1, 2020, 100% of the prepayments and repayments on the Transferred Program Loans will be used to redeem Offered Bonds, and prepayments and repayments of Program Loans (or portions thereof) financed with proceeds of the Offered Bonds other than the Transferred Program Loans, during the following periods will be used to redeem Offered Bonds, in accordance with the following approximate 10 year rule percentages, all to the extent such amounts are not otherwise applied to pay maturing principal on the Offered Bonds, to redeem Offered Bonds from Sinking Fund Payments or to redeem PAC Bonds:

<u>Prepayments and Repayments Receipt Periods</u>	<u>% Prepayments and Repayments Applied to Payment or Redemption</u>
December 11, 2019 to March 31, 2021	0.45 %
April 1, 2021 to October 31, 2021	0.84
November 1, 2021 to April 30, 2023	1.53
May 1, 2023 to April 30, 2024	2.42
May 1, 2024 to October 31, 2024	2.82
November 1, 2024 to May 31, 2025	3.57
June 1, 2025 to September 30, 2025	4.32
October 1, 2025 to April 30, 2026	5.85
May 1, 2026 to September 30, 2026	6.55
October 1, 2026 to February 28, 2027	7.38
March 1, 2027 to May 31, 2027	8.88
June 1, 2027 to February 29, 2028	10.67
March 1, 2028 to August 31, 2028	11.72
September 1, 2028 to February 28, 2029	13.21
March 1, 2029 to May 31, 2029	14.05
June 1, 2029 to November 30, 2029	15.17
December 1, 2029 to thereafter	100.00

THDA will redeem the Offered Bonds in accordance with these schedules to the extent required to comply with the Code. THDA reserves the right to modify these schedules at any time to the extent the Code permits or requires such modification.

Redemption of Offered Bonds from Unexpended Proceeds. The Offered Bonds are subject to redemption, at the election of THDA, in whole or in part on any date, from proceeds of the Offered Bonds not expected to be applied to the financing of Program Loans (or participations therein). In addition, the Offered Bonds are subject to mandatory redemption on February 1, 2021, in the event and to the extent that there are unexpended proceeds of the Offered Bonds on deposit in the Issue 2019-4 Bonds Subaccount of the Loan Fund on January 1, 2021, provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in the Issue 2019-4 Supplemental Resolution, including without limitation, provision of a Projected Cash Flow Statement.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Offered Bonds are subject to mandatory redemption on June 1, 2023, to the extent any amounts remain on deposit in the Issue 2019-4 Bonds Subaccount of the Loan Fund on May 1, 2023.

Offered Bonds to be redeemed from the unexpended proceeds shall be redeemed at a redemption price of 100% of the principal amount thereof, plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price of the PAC Bonds shall be the issue price thereof (par plus initial premium) plus accrued interest to the redemption date. The Offered Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in amounts in excess of their proportionate amounts of all Offered Bonds then Outstanding.

Selection By Lot

If less than all of the Issue 2019-4 Bonds of like maturity are to be redeemed, the particular Issue 2019-4 Bonds of such maturity to be redeemed shall be selected by lot in accordance with the General Resolution.

Notice of Redemption

When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds and when redemption of Bonds is required by the Resolution, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth, in summary terms, the conditions precedent to such redemption and that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

APPLICATION OF BOND PROCEEDS

Proceeds from the issuance and sale of the Issue 2019-4 Bonds will be credited or applied as set forth below:

SOURCES

Par Amount of the Offered Bonds	\$ 200,000,000.00
Premium on PAC Bonds	7,205,520.00
Transferred Program Loans	35,262,681.76
Transferred Investments	3,419,251.67
TOTAL SOURCES	<u>\$ 245,887,453.43</u>

USES

Deposit to Loan Fund ⁽¹⁾	\$ 203,412,681.76
Redemption of Issue 2010-B Bonds.....	31,850,000.00
Deposit to Debt Service & Expense Account of the Revenue Fund	1,000,000.00
Deposit to Bond Reserve Fund	8,153,660.61
Costs of Issuance	300,500.00
Underwriters' Fee	1,170,611.06
TOTAL USES	<u>\$ 245,887,453.43</u>

(1) Includes \$168,150,000.00 in proceeds from Issue 2019-4 plus approximately \$35,262,681.76 in Transferred Program Loans (including participations therein).

SECURITY AND SOURCES OF PAYMENT OF BONDS

Security of Bonds and Sources of Payment

The Bonds are special limited obligations of THDA payable solely from the revenues and assets of THDA pledged under the General Resolution. Subject only to the provisions of the General Resolution permitting the application of certain monies for the purposes and under the terms set forth therein, and to the payment to the Trustee and the Paying Agents and depositories of compensation for their services and expenses, such Bonds are secured equally and ratably by a pledge of the following:

(a) Revenues, which include scheduled, delinquent and advance payments of principal of and interest on Program Loans made pursuant to the General Resolution (less the amount thereof retained by the servicers as compensation for services rendered in connection with the Program Loans and for other payments, including those for guaranty or insurance of Program Loans and for taxes, assessments and insurance premiums) and the net income, if any, derived by THDA from premises owned by THDA as a result of action taken in the event of a default on a Program Loan;

(b) Non-Mortgage Receipts, which includes all interest earned or gain realized in excess of losses from investment of the amount in any Fund or Account established under the General Resolution;

(c) All Funds and Accounts created by the General Resolution, including the Bond Reserve Fund, and monies and securities therein (see Appendix D "2013 GENERAL RESOLUTION"); and

(d) All right, title and interest of THDA in and to the Program Loans made or purchased pursuant to the General Resolution.

THDA has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State or any other political subdivision thereof (except THDA). Neither the full faith and credit nor taxing power of the State or of any other political subdivision thereof is pledged for the payment of the principal of, redemption price or interest on the Bonds. The Bonds are payable solely from the funds provided therefor pursuant to the General Resolution.

Bond Reserve Fund

The Act authorizes THDA to establish one or more reserve funds. THDA has established a Bond Reserve Fund for the Bonds and the General Resolution provides that THDA may not issue any Bond unless the amount in the Bond Reserve Fund is at least equal to the "Bond Reserve Fund Requirement." The Bond Reserve Fund Requirement is the greater of (i) an amount equal to the aggregate of the respective amounts for each series of Bonds established in the Supplemental Resolution authorizing such series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any other amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities. On the date of issuance of the Offered Bonds, the Bond Reserve Fund will contain an amount at least equal to the Bond Reserve Fund Requirement. The Resolution requires that if, on any Interest Payment Date or Redemption Date, there is not a sufficient amount available in the Revenue Fund and the Redemption Fund, if applicable, to provide for interest or principal and sinking fund installments maturing and becoming due on the Bonds, the Trustee must transfer the amount of the deficiency from the Bond Reserve Fund to the extent necessary to make good the deficiency.

Additional Bonds

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds, when issued, shall, with the Offered Bonds and other outstanding bonds, be entitled to the equal benefit, protection, and security of the provisions, covenants and agreements of the General Resolution, except as otherwise described herein.

ASSUMPTIONS REGARDING OFFERED BONDS

General

The General Resolution requires THDA to file Projected Cash Flow Statements with the Trustee periodically in connection with various actions THDA may take pursuant to the General Resolution including, without limitation, the issuance of Bonds. (See Appendix D "2013 GENERAL RESOLUTION" for a description of Projected Cash Flow Statements and the circumstances under which they are required.) A Projected Cash Flow Statement meets the requirements of the General Resolution if it shows that sufficient amounts will be available under the General Resolution to pay Debt Service on Bonds Outstanding under the General Resolution, including the Offered Bonds, and Program Expenses and that the amount of all assets held under the General Resolution equals or exceeds the total liability of all Bonds Outstanding under the General Resolution. In connection with the preparation of Projected Cash Flow Statements, THDA makes certain assumptions concerning revenues derived from Program Loans, Program Expenses, rate and amount of prepayments, earnings on investments, rate of origination of Program Loans, and Bond redemptions.

It is a condition to the issuance of the Offered Bonds that THDA shall have prepared and filed a Projected Cash Flow Statement (the "Projected Cash Flow Statement"). The Projected Cash Flow Statement will be based, among other assumptions, on the assumption that on the transfer date (i) Transferred Program Loans in the aggregate principal amount of approximately \$35,262,681 (including participations therein), with a weighted average maturity of approximately 250 months and a weighted average interest rate of approximately 4.80%, will be allocated to the Offered Bonds and (ii) THDA originates approximately \$168,150,000 of thirty year Program Loans (or participations therein) bearing interest at a weighted average interest rate of approximately 3.49%. The Projected Cash Flow Statement shall evidence that, upon the issuance of the Offered Bonds, sufficient amounts will be available under the General Resolution to pay Debt Service for all Bonds Outstanding, including the Offered Bonds. THDA believes the assumptions to be used in connection with the preparation of the Projected Cash Flow Statement are reasonable. THDA cannot, however, guarantee that actual results will not vary materially from such assumptions. If subsequent events do not correspond to such assumptions, the amount of Revenues available to make payments of principal and interest on the Bonds, including the Offered Bonds, when scheduled, may be adversely affected and the expected life of the Offered Bonds may be affected.

Payments of Principal and Interest on the Bonds

The Projected Cash Flow Statement assumes that payments of principal and interest on the Offered Bonds will be made, when scheduled, from scheduled payments and prepayments of principal and interest on the Program Loans (or portions thereof) allocable to the Offered Bonds and from other moneys available under the Resolution including, without limitation, income expected to be derived from the investment of monies in the funds and accounts established under the Resolution. For purposes of preparing the Projected Cash Flow Statement, it has been assumed that scheduled payments of principal and interest on the Program Loans will be received 29 days from the date on which they are due. Such sources of available monies may be insufficient to make such payments in the event that (i) regularly scheduled payments on Program Loans are not made on a timely basis in accordance with their terms, (ii) THDA incurs uninsured losses in connection with the foreclosure of Program Loans or insured losses which the insurer does not pay, (iii) THDA is not able to finance Program Loans in accordance with its expectations, (iv) actual investment rates on Investment Securities are less than those assumed, or (v) prepayments are not received as anticipated to the extent the Projected Cash Flow Statement was based on an assumed level of prepayments.

Program Loans

Certain moneys made available from the issuance of the Offered Bonds will be deposited in the Issue 2019-4 Bond Subaccount of the Loan Fund and will be used to continue THDA's program of financing Program Loans for single family, owner occupied residential housing for low and moderate income persons and families. Although THDA may use amounts made available as a result of the issuance of Offered Bonds to finance Great Choice Program Loans, New Start Program Loans, and Homeownership for the Brave Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans. In addition, THDA may use amounts made available from the issuance of the Offered Bonds to finance Program Loans on a blended basis with proceeds of other bonds of THDA, including participation interests bearing interest at 0% in order to satisfy mortgage yield limitations of the Code. See "RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans" for descriptions of the various Program Loan products and Appendix G "RESIDENTIAL FINANCE PROGRAM LOAN ORIGINATING AND SERVICING PROCEDURES" for more information about specific program requirements.

Program Loans are made on a continuing, first-come, first served basis by Originating Agents approved by THDA. The Projected Cash Flow Statement assumes that Program Loans (or participations therein) financed with the proceeds of the Issue 2019-4 Bonds will be first-lien, thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest bearing interest at a weighted average of 3.49% and that Program Loans purchased by THDA from Originating Agents will be purchased at par.

THDA's general policy is to maintain a steadily available supply of funds to finance program loans at competitive interest rates. THDA generally establishes interest rates for its program loans in connection with the sale of bonds by taking into account the maximum permitted interest rate under the Code and the spread between that rate and the then prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. THDA prefers to maintain the same interest rates throughout the period of origination of program loans for each issue of bonds; however, THDA regularly reviews these interest rates in light of market conditions and retains the flexibility to modify its interest rates to meet changing needs and conditions. No assumptions can be made regarding the length of time an interest rate set by THDA will remain available or what effect a particular interest rate will have on the origination of Program Loans.

Nonorigination of Program Loans

While THDA retains the flexibility to modify the interest rates at which Program Loans are offered, there are circumstances under which these interest rates may not be competitive with prevailing home mortgage interest rates offered by mortgage lenders in Tennessee. Under these circumstances, it will be more difficult for THDA to originate Program Loans. The ability of THDA to finance Program Loans on a blended basis with proceeds of other bonds of THDA or otherwise may also be affected by the availability of residences that meet THDA's acquisition cost limits and the willingness of potential borrowers to assume potential federal recapture tax liability. Although THDA expects that all lendable proceeds available from the Issue 2019-4 Bonds will be used to finance Program Loans, no assurance can be given whether this will occur or the speed at which this may occur.

The last transaction that resulted in an unexpended proceeds redemption was THDA's Homeownership Program Bonds, Issue 1996-3 under the 1985 General Resolution. Notwithstanding past performance, no assurances can be given that proceeds from Issue 2019-4 Bonds will be fully expended for Program Loans.

THDA began committing Program Loans against the expected proceeds from the Offered Bonds on October 1, 2019. As of the close of business on October 28, 2019, THDA has committed a total principal amount of approximately

\$42,000,000 of Program Loans and as of October 30, 2019, THDA expects to begin purchasing Program Loans, all of which are Great Choice Program Loans and Homeownership for the Brave Program Loans that will be allocated to the Offered Bonds. See “RESIDENTIAL FINANCE PROGRAM LOANS – Description of Residential Finance Program Loans”. Assuming successful pricing and closing of the Offered Bonds, THDA expects to reimburse itself on the day of closing for all Program Loans previously purchased, if any.

Changes in Federal or State Law

Legislation affecting the Offered Bonds and THDA's single family mortgage loans may be considered and enacted by the United States Congress or the Tennessee General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks.

The United States Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) in 2010, and may pass additional legislation impacting the origination and servicing of mortgage loans. Likewise, the Tennessee General Assembly may enact legislation relating to mortgage loan origination and servicing. The Dodd-Frank Act has not, to date, had a material adverse effect on THDA's single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans; however, additional legislation, if enacted, or regulations, if promulgated to effectuate the purposes of the Dodd-Frank Act or other state or federal regulations, could have an adverse effect on THDA's activities.

A number of state regulatory authorities have taken action in recent years against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the State of Tennessee could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the THDA's single-family loans could adversely affect the THDA's ability to collect amounts due on such loans and could impair the value of such loans.

Prepayments

THDA, from time to time, receives monies from (i) partial or complete prepayment of Program Loans (which is permitted, without penalty) or (ii) termination of Program Loans prior to their respective final payment date due to default, sale, condemnation or casualty loss. In addition, the Resolution permits the sale of Program Loans, including those allocated to the Offered Bonds, and application of the sale proceeds to the redemption of Bonds (see Appendix D “2013 GENERAL RESOLUTION”), subject to limitations contained in the Code; however, THDA has no current plans to sell Program Loans. The rate at which such prepayments, if any, of Program Loans will be received by THDA cannot be predicted. The actual rate of such prepayments may be influenced by a variety of economic, social and other factors, including proposed legislative and regulatory changes and there is no reliable basis for predicting the actual average life of the Program Loans. Consequently, THDA makes no assumptions or representations as to the factors that will affect the rate of prepayments, if any, or the relative importance of such factors and their potential impact on the actual average life of Program Loans and the expected life of the Offered Bonds. To the extent THDA is required or elects to redeem the Offered Bonds, it is probable that the Offered Bonds will have a shorter life than their stated maturity.

Subject to the requirements of the General Resolution, the resolutions to be adopted in connection with other series of Bonds under the General Resolution and the Code, such prepayments may (i) be required to pay regularly scheduled debt service to the extent a series of the Bonds was based upon an assumed prepayment level; (ii) be used to redeem Bonds of the related series; (iii) be used to redeem Bonds of any series; or (iv) be recycled into additional Program Loans. Further, prepayments attributable to the Program Loans financed with the proceeds of the Offered Bonds, or other Bonds, or portions thereof, may or will be applied to redeem Offered Bonds as described herein under “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds,” “- Special Optional Redemption of the Offered Bonds, including Cross Calls” and “- Mandatory Redemption – 10-Year Rule”.

THDA Redemption Practices

The Resolution specifies, and the resolutions to be adopted in connection with other series of Bonds under the General Resolution will specify, when THDA is required to redeem Bonds and when THDA may elect to redeem Bonds. See “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds.”

To the extent THDA has discretion to redeem Bonds and select the maturities and series to be redeemed, THDA's general redemption policy had been to first redeem those Bonds bearing the highest interest rate; however, due to universal cap implications and economic decisions by THDA, THDA's current general redemption policy is to call term bonds on a pro-rata basis within bond issues or to redeem the highest coupon serial bonds where doing so would reduce debt service requirements under the Resolution when possible. Adherence to either policy may be affected by a series of factors including, but not limited to, (i) certain restrictions or limitations imposed by the Code including, but not limited to, 10-year rule requirements and universal cap considerations; (ii) certain limitations or restrictions imposed by the Resolution and/or resolutions adopted in connection with other series of Bonds under the General Resolution including, but not limited to, redemption provisions; (iii) economic considerations; (iv) cash flow requirements; and (v) the amount of prepayments and other monies available to THDA for optional redemption of Bonds.

These factors are regularly considered in determining which Bonds may be selected for redemption. No assumptions or representations can be made as to how or which of these factors or whether any other factors will affect THDA's determination, from time to time, regarding particular Bonds selected for redemption.

Payment of Program Expenses

The General Resolution authorizes payment of all Program Expenses from the Debt Service and Expense Account of the Revenue Fund established under the Resolution, so long as the Debt Service and Expense Account and the Bond Reserve Fund contain amounts sufficient to meet the requirements of the General Resolution. See Appendix D "2013 GENERAL RESOLUTION" for a description of Program Expenses. THDA expects to use funds on deposit in the Debt Service and Expense Account of the Revenue Fund to pay Costs of Issuance, Underwriters' fees, initial Trustee's fees, and other similar costs associated with the Offered Bonds and may continue to do so in connection with future Bond issues or may pay such costs and fees from Bond proceeds in future transactions. In addition, THDA expects to pay certain Program Expenses, including ongoing Trustee's fees, servicing release premiums, servicing fees, foreclosure fees and expenses and other similar costs, from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from other THDA bond resolutions and from other resources available to THDA. No assurances can be provided that THDA will not withdraw funds from the General Resolution in the future to pay all Program Expenses or other operating and administrative costs and expenses. For more information about the payment of Program Expenses and other operating and administrative costs of THDA, see "THDA – THDA Funds". THDA does not currently receive funds from the State of Tennessee for operating and administrative costs and expenses.

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions.

Investment Assumptions

Estimated available investment income attributable to the Offered Bonds is calculated assuming that (i) existing Investment Securities in the Revenue Fund and the Bond Reserve Fund pay scheduled interest and principal payments until the earlier of their call date or maturity date; (ii) proceeds of Investment Securities and other receipts in the Revenue Fund are invested at 0% per annum; and (iii) funds on deposit in the Issue 2019-4 Bond Subaccount of the Loan Fund prior to origination of Program Loans, are invested at a rate of 0% per annum.

There can be no assurance that the Investment Securities will provide the investment income projected. If THDA experiences losses or delays in payments on the Investment Securities, there may be insufficient funds to make payments of principal and interest on the Offered Bonds when scheduled.

Average Life of PAC Bonds

The term “weighted average life” refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the PAC Bonds will be influenced by the rate at which principal of the Program Loans allocated to the Offered Bonds is repaid. Principal payments of Program Loans may be in the form of scheduled amortization or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations due to default or other dispositions of the Program Loans, including payments on FHA mortgage insurance, VA guarantees, and private mortgage insurance policies). Prepayments on mortgage loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Securities Industry and Financial Markets Association (formerly known as the Public Security Association (“PSA”)) prepayment standard or model (commonly referred to as the “PSA Prepayment Model”).

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

Prepayment speeds are commonly referred to as a percentage of the PSA Prepayment Model. For instance, “0% PSA” assumes no prepayments of principal on the Program Loans. “25% PSA” assumes the principal of Program Loans will prepay one-quarter as fast as the prepayments rates for 100% of the PSA Prepayment Model. “50% PSA” assumes the principal of Program Loans will prepay one-half as fast as the prepayments rates for 100% of the PSA Prepayment Model. “75% PSA” assumes the principal of Program Loans will prepay three-quarters as fast as the prepayments rates for 100% of the PSA Prepayment Model. “100% PSA” assumes the principal of Program Loans will prepay as fast as the prepayments rates for 100% of the PSA Prepayment Model. “200% PSA” assumes the principal of Program Loans will prepay at a rate twice as fast as the prepayments rates for 100% of the PSA Prepayment Model. “300% PSA” assumes the principal of Program Loans will prepay at a rate three times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “400% PSA” assumes the principal of Program Loans will prepay at a rate four times as fast as the prepayments rates for 100% of the PSA Prepayment Model. “500% PSA” assumes the principal of Program Loans will prepay at a rate five times as fast as the prepayments rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayments of the principal on Program Loans will conform to any particular level of the PSA Prepayment Model. The rate of principal payment on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage loan interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors’ housing needs, job transfers, unemployment and mortgagors’ net equity in the mortgage properties. In general, if prevailing interest rates fall significantly, the Program Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on the Program Loans. As homeowners move or default on their mortgage loans, the houses are generally sold and the mortgage loan prepaid, although under certain circumstances, the mortgage loans may be assumed by a new buyer. Because of the foregoing influences upon prepayments and since the rate of prepayment of principal of Bonds will depend on the rate of repayment (including prepayments) of the Program Loans, the full repayment of any Bonds is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The Program Loans allocable to the Offered Bonds may be terminated prior to final maturity as a result of prepayment, default, sale, condemnation, casualty loss or noncompliance. In addition, matters discussed under “Changes in Federal or State Law” above could have an effect on terminations. Consequently, it is impossible to predict the timing of the repayment of principal of the Program Loans allocable to the Offered Bonds and hence the weighted average life of the PAC Bonds. THDA has provided for the redemption of the PAC Bonds as described under the heading “DESCRIPTION OF OFFERED BONDS - Redemption Provisions for Offered Bonds—Special Mandatory Redemption of PAC Bonds”, and the weighted average lives of the PAC Bonds set forth below have been calculated based upon various assumptions, including assumptions that (i) 100% of the money deposited in the Issue 2019-4 Bond

Subaccount of the Loan Fund is applied to finance Program Loans, (ii) approximately \$35,262,681 of Transferred Program Loans (including participations therein) with an approximate weighted average maturity of 250 months and an approximate weighted average interest rate of 4.80% will be allocated to the Offered Bonds, (ii) Excess 2019-4 Principal Payments will be used to redeem PAC Bonds only on Interest Payment Dates, and (iii) the PAC Bonds will be redeemed only in the Planned Amortization Amounts as described under the heading “DESCRIPTION OF OFFERED BONDS – Redemption Provisions for Offered Bonds – Special Mandatory Redemption of PAC Bonds” and will not otherwise be redeemed in whole or in part. There can be no assurance that such assumptions will in fact prove accurate. For certain information regarding Transferred Program Loans see “DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS” herein.

Projected Weighted Average Lives for PAC Bonds

<u>PSA Speed</u>	<u>PAC Bond Average Life (in years)</u>
0%	17.9
25	13.9
50	9.7
75	6.9
100	5.5
200	5.5
300	5.5
400	5.5
500	4.4

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RESIDENTIAL FINANCE PROGRAM BONDS

Bonds Outstanding Under the Resolution

As of September 30, 2019, THDA has issued \$2,908,805,000 total original principal amount of bonds under the General Resolution, of which \$2,300,485,000 (unaudited) were outstanding as of September 30, 2019, as shown below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Amount Outstanding As of September 30, 2019 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
Issue 2013-1	May 30, 2013	\$ 215,905,000	\$ 76,080,000	3.13%
Issue 2013-2	November 19, 2013	121,300,000	54,235,000	3.59
Issue 2014-1	May 29, 2014	150,000,000	73,090,000	3.23
Issue 2014-2	November 20, 2014	150,000,000	88,850,000	2.91
Issue 2015-1	June 11, 2015	150,000,000	96,240,000	3.31
Issue 2015-2	October 15, 2015	175,000,000	118,885,000	3.25
Issue 2016-1	May 18, 2016	125,000,000	97,055,000	2.68
Issue 2016-2	October 18, 2016	125,000,000	99,995,000	2.68
Issue 2016-3	November 17, 2016	62,000,000	33,970,000	2.97
Issue 2017-1	March 30, 2017	100,000,000	82,785,000	3.15
Issue 2017-2	June 27, 2017	175,000,000	150,375,000	2.94
Issue 2017-3	September 28, 2017	99,900,000	94,225,000	3.03
Issue 2017-4	December 19, 2017	99,900,000	93,445,000	2.90
Issue 2018-1	March 29, 2018	99,900,000	95,210,000	3.33
Issue 2018-2	June 12, 2018	160,000,000	154,490,000	3.37
Issue 2018-3	September 6, 2018	149,900,000	147,140,000	3.47
Issue 2018-4	November 15, 2018	225,000,000	219,680,000	3.58
Issue 2019-1	March 21, 2019	175,000,000	174,735,000	3.34
Issue 2019-2	June 27, 2019	200,000,000	200,000,000	2.58
Issue 2019-3	September 30, 2019	150,000,000	150,000,000	2.38
TOTAL		\$ 2,908,805,000	\$ 2,300,485,000	

(1) Bond yield.

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Origination Experience

THDA's experience from May 30, 2013, to September 30, 2019 (unaudited), regarding origination of Program Loans⁽¹⁾ from lendable proceeds of Bonds issued under the General Resolution since May 30, 2013, is shown in the following table:

<u>Issue of Bonds</u>	<u>Lendable Proceeds⁽²⁾</u>	<u>Program Loans Financed⁽³⁾</u> <u>As of September 30, 2019</u>		<u>Weighted Average Interest Rate⁽⁴⁾</u>
		<u>Amount</u>	<u>%</u>	
Issue 2013-1	\$ 136,268,395	\$ 136,268,395	100.00%	4.11%
Issue 2013-2	78,421,003	78,421,003	100.00	4.60
Issue 2014-1	119,728,634	119,728,634	100.00	4.08
Issue 2014-2	111,820,000	111,819,841	100.00	3.74
Issue 2015-1	131,880,843	131,880,843	100.00	4.05
Issue 2015-2	133,950,000	133,950,000	100.00	4.09
Issue 2016-1	92,340,000	92,340,000	100.00	3.98
Issue 2016-2	91,685,000	91,685,000	100.00	3.87
Issue 2017-1	102,200,000	102,200,000	100.00	4.15
Issue 2017-2	128,090,000	128,090,000	100.00	4.61
Issue 2017-3	90,500,000	90,500,000	100.00	4.62
Issue 2017-4	75,660,000	75,660,000	100.00	4.40
Issue 2018-1	102,600,000	102,600,000	100.00	4.39
Issue 2018-2	143,525,000	143,525,000	100.00	4.61
Issue 2018-3	151,916,000	151,916,000	100.00	4.61
Issue 2018-4	211,450,000	211,450,000	100.00	4.67
Issue 2019-1	162,700,000	162,700,000	100.00	4.82
Issue 2019-2	170,950,000	170,950,000	100.00	4.19
Issue 2019-3	142,000,000	95,329,922	67.13	3.86
TOTAL	\$ 2,377,684,875	\$ 2,331,014,638		

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for more information about Program Loans.

(2) Excludes proceeds that must be lent at 0% interest as participations in other Program Loans.

(3) Only Program Loans that have closed are included. Program Loans for which THDA has issued commitments are not included.

(4) The weighted average interest rate relates only to new loans made from the lendable proceeds of the related bond issue and does not include any transferred loans derived from any refunding component of the related bond issue.

THDA began committing Program Loans against the expected lendable proceeds from the Offered Bonds on October 1, 2019. As of the close of business on October 28, 2019, THDA has committed a total principal amount of approximately \$42,000,000 of Program Loans and as of October 30, 2019, THDA expects to begin purchasing Program Loans that will be allocated to the Offered Bonds, all of which are Great Choice Program Loans or Homeownership for the Brave Program Loans. THDA expects to reimburse itself for the full original principal amount of the Program Loans purchased as of the day of closing the Offered Bonds, if any.

RESIDENTIAL FINANCE PROGRAM LOANS

Description of Residential Finance Program Loans

General

THDA generally offers a primary loan program and may, from time to time, offer certain special loan programs. THDA Household Income Limits and THDA Acquisition Cost Limits for all loan programs are set in compliance with Code requirements. Household Income Limits and Acquisition Cost Limits may be further restricted for certain special loan programs. The current THDA Acquisition Cost Limits range from \$250,000 to \$375,000 depending on geographic location. As of May 27, 2019, the THDA Household Income Limits range from \$64,500 to \$112,000 depending on household size and geographic location. See Appendix G for a description of Residential Finance Program Loan Procedures related to Code requirements.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described in Appendix G. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. The Issue 2019-4 Supplemental Resolution provides that the Program Loans to be financed with proceeds of the Offered Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple estate in real property located in the State. THDA does not expect to use lendable proceeds of the Offered Bonds to purchase participations in Program Loans insured by private mortgage insurance. While the Issue 2019-4 Supplemental Resolution provides that Program Loans, or participations therein, to be financed with proceeds of the Offered Bonds shall be first lien loans, no assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

Since June 15, 2015, THDA has applied underwriting standards for Program Loans made after that date that, among other things include a minimum credit score of 640 for all borrowers and a required monthly debt to income ratio that does not exceed 45%. Program Loans financed prior to such date were underwritten under different underwriting standards. THDA may, from time to time, initiate certain special limited programs for which some of these requirements may be waived.

On or before September 30, 2013, the THDA primary loan program included Great Rate loans, Great Advantage loans, Great Start loans and Homeownership for the Brave loans, all as described below. On and after October 1, 2013, the THDA primary loan program has included Great Choice Program Loans and Homeownership for the Brave Program Loans, all as described below.

Transferred Program Loans financed prior to September 30, 2013, include the following Program Loans: Great Rate, Great Advantage, Great Start, Disaster Relief and Economic Recovery, and START (all as described below). THDA no longer makes these types of loans.

On or before September 30, 2013, THDA provided downpayment and closing cost assistance in the form of a grant that was available in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made. Since October 1, 2013, THDA has provided downpayment and closing cost assistance in the form of Great Choice Plus Program Loans as described below. As of March 1, 2017, THDA began providing additional downpayment and closing cost assistance through its Hardest Hit Fund Down Payment Assistance program as described below.

Great Choice Program Loans

Since October 1, 2013, THDA has made Great Choice Program Loans available to eligible borrowers. Great Choice Program Loans are thirty year, fixed interest rate loans, fully amortized with full documentation and secured by a first lien on the property purchased. The interest rate for Great Choice Program Loans is set at a rate which results in the yield on such Program Loans not in excess of 1.125% above the yield on the related issue of bonds. The current interest rate for Great Choice Program Loans is 3.50%.

See Appendix B for a summary of the mortgage insurance or guarantee programs applicable to these Program Loans.

Great Choice Plus Loans

Since October 1, 2013, THDA has made Great Choice Plus loans available to eligible borrowers. Great Choice Plus loans are loans for downpayment and closing cost assistance and are available at the election of eligible borrowers in connection with Great Choice Program Loans.

Great Choice Plus Loans currently being made are thirty year, 0% interest rate, second lien loans in a principal amount up to 5% of the purchase price of the property purchased. No monthly payments are due, but each Great Choice

Plus loan will be due on sale and the amount due will be the full original principal amount of the loan, provided, however, that the full original principal amount will be forgiven at the end of the thirty year term. THDA began making Great Choice Plus Loans with these terms as of October 3, 2016.

Prior to October 3, 2016, Great Choice Plus Loans were made with the following terms: From October 1, 2013, to September 30, 2014, they were ten year, 0% interest rate loans with a principal amount equal to 4% of the purchase price of the property purchased. From October 1, 2014, to September 30, 2016, Great Choice Plus Loans were 0% interest, deferred, forgivable second lien loans with a fifteen year term. During the first ten years of the term, no monthly payments are due, but each Great Choice Plus loan will be due on sale and the amount due will be the full original principal amount of the loan. From years eleven through fifteen, the Great Choice Plus loans with these terms will be forgiven at twenty percent per year and the amount due on sale will be reduced by the forgiven amount. These Great Choice Plus loans are secured by a second lien on the property purchased, are due on sale and are not assumable.

At the election of THDA, Great Choice Plus loans may be financed with proceeds of Bonds issued under the Resolution or from other resources available to THDA, including, without limitation, excess funds under the 1974 General Resolution, the 1985 General Resolution, or the 2009 General Resolution. To date, all Great Choice Plus loans have been financed with other resources available to THDA. THDA does not expect that Great Choice Plus loans will be funded with the proceeds of the Offered Bonds. No assurance can be provided, however, that Supplemental Resolutions adopted for future series of Bonds will not authorize the financing of Great Choice Plus loans with the proceeds of such Bonds. In the event proceeds of future series of Bonds are used to fund Great Choice Plus loans, such loans will constitute Program Loans, will be subject to the lien of the General Resolution and will be a portion of the sources of payment of and security for the Bonds.

Hardest Hit Fund Down Payment Assistance

In March 2017, THDA began providing \$15,000 in downpayment assistance from the fifth round of federal Hardest Hit Fund funding ("HHF-DPA") to eligible borrowers who qualify for THDA Great Choice loans and who are purchasing existing homes in an approved ZIP Code in Tennessee. HHF-DPA is secured by a second deed of trust for a ten year term. HHF-DPA does not bear interest, and there are no monthly payments, but it is due on sale. HHF-DPA is forgiven at 20% per year in years six through ten. A THDA approved Homebuyer Education course is also required. As of August 7, 2019, all funds for HHF-DPA were exhausted.

New Start Program Loans

New Start Loan Program Loans are designed to promote the construction of new homes for very low-income Tennesseans. New Start Loan Program Loans are delivered through non-profit organizations with established programs for the construction of single family housing for low and very low income households. The non-profit organization selects the homebuyer, determines eligibility, constructs the home, provides homebuyer education, originates, processes, closes and services the New Start Program Loan. New Start Program Loans are serviced by the Federation of Appalachian Housing Enterprises, Inc., as of January 1, 2015. New Start Program Loans have loan terms up to thirty years and are secured by a first lien on the property purchased. A 0% interest rate is available to borrowers who have a maximum family income of 60% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. As of December 1, 2016, the maximum loan amount was increased to \$123,750 for Maury, Williamson, Davidson, Rutherford, Wilson and Sumner Counties. An interest rate equal to one-half of the current interest rate for Great Choice Program Loans is available to borrowers who have a maximum family income of 70% of the higher of the state or county median income, with a maximum loan amount equal to the lesser of 75% of the value of the property or \$112,500. All other THDA Program Loan requirements remain applicable.

As of September 30, 2019 (unaudited), 130 New Start Program Loans, with an aggregate principal balance of approximately \$5,866,124, were outstanding under the General Resolution. Although THDA may use amounts made available as a result of the issuance of the Offered Bonds to finance New Start Program Loans, THDA does not expect to use proceeds of the Offered Bonds to make New Start Program Loans.

Homeownership for the Brave

Homeownership for the Brave Program Loans are available to eligible borrowers at a ½-percentage point reduction on the otherwise applicable loan program. Active and retired members of the military and reservists (180 days active duty) and spouses, and surviving spouses of qualified veterans are all eligible to receive this reduction. Eligible borrowers will also be eligible for Great Choice Plus loans.

As of September 30, 2019 (unaudited), 515 Homeownership for the Brave Program Loans, with an aggregate principal balance of approximately \$65,231,941, were outstanding under the General Resolution. THDA may continue to finance Homeownership for the Brave Loans, from time to time, from the proceeds of the Offered Bonds as well as from the proceeds of other Bonds.

Disaster Relief and Economic Recovery Mortgage Program

THDA made Disaster Relief and Economic Recovery Mortgage Program Loans from funds available under the 1974 General Resolution. In connection with Issue 2013-1 Bonds issued under the General Resolution, certain of these Disaster Relief and Economic Recovery Program Loans became transferred program loans allocable to the Issue 2013-1 Bonds under the General Resolution.

As of September 30, 2019 (unaudited), 143 Disaster Relief Program Loans, with an aggregate principal balance of approximately \$7,218,254, were outstanding under the General Resolution. THDA no longer makes loans of this type.

Great Rate/Great Advantage/Great Start Program Loans

Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were available to qualified borrowers prior to October 1, 2013. Great Rate Program Loans, Great Advantage Program Loans, and Great Start Program Loans were thirty year, fixed interest rate loans, fully amortized, with full documentation, and secured by a first lien on the property purchased. Interest rates for each type of Program Loan were established at rates which resulted in a blended yield on such Program Loans not in excess of 1.125% above the yield on the related issue of Bonds. THDA also provided downpayment and closing cost assistance in the form of a grant in connection with Great Start and Great Advantage Program Loans. Higher interest rates on these two Program Loan types reimbursed THDA for the grants made.

As of September 30, 2019 (unaudited), 2472 Great Rate, 168 Great Advantage, and 1,651 Great Start Program Loans, with an aggregate principal balance of approximately \$327,898,154 were outstanding under the General Resolution. THDA no longer makes loans of this type.

START Program Loans

From September 1993 to December 1998, THDA offered the Special Targeted Affordable Rate for Tennessee Program (the "START Program") using recycled prepayments received under the 1974 General Resolution and certain bond proceeds from bonds issued under the 1974 General Resolution and the 1985 General Resolution; through a series of refundings, certain START Program Loans are allocated to the General Resolution. First lien START Program Loans under the General Resolution had a 5.5% interest rate, were made to borrowers who earned \$17,000 or less per year and who purchased their first home for \$44,000 or less. After October 1, 1997, borrowers who earned \$18,500 or less per year and who purchased their first home for \$47,500 or less were eligible for first lien START Program Loans at a 5.5% interest rate. Except for the more restrictive income and acquisition cost limitations, all other requirements of THDA's Homeownership Program applied.

As of September 30, 2019 (unaudited), 403 START Program Loans having an aggregate principal balance of approximately \$5,032,419 were outstanding under the General Resolution. THDA no longer makes loans of this type.

Residential Finance Program Portfolio Data

General

As of September 30, 2019 (unaudited), 20,396 Program Loans for single family owner-occupied housing having an aggregate outstanding principal amount of approximately \$2,229,173,093 were outstanding under the General Resolution. These Program Loans had an approximate remaining weighted average maturity of 319 months and an approximate weighted average interest rate of 4.52 %.

Tables under this heading, "Residential Finance Program Portfolio Data", do not include data about Transferred Program Loans. For more information about Transferred Program Loans see "DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS".

Program Loans ByType of Insurance or Guarantee

The following table summarizes, as of September 30, 2019 (unaudited), the types of insurance or guarantee for the outstanding Program Loans:

Type of Program Loan Made by THDA⁽¹⁾	Number of Program Loans	Outstanding Balance⁽³⁾	Percent of Total Number of Program Loans⁽³⁾	Percent of Total Outstanding Balance⁽³⁾
FHA Insured	17,492	\$ 1,981,703,897	85.76%	88.90%
VA Guaranteed	445	51,942,763	2.18	2.33
Privately Insured	609	48,656,029	2.99	2.18
USDA/RD Guaranteed	1093	94,950,788	5.36	4.26
Uninsured ⁽²⁾	757	51,919,617	3.71	2.33
TOTAL	20,396	\$ 2,229,173,093⁽⁴⁾	100.00%⁽⁴⁾	100.00%⁽⁴⁾

(1) See Appendix B for more information about FHA insurance, VA and USDA/RD guarantees and private insurance for Program Loans. See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

Privately Insured Program Loans

Since January 2, 2009, THDA has not purchased conventional, privately insured loans because no private mortgage insurers, since January 2, 2009, have or have had ratings of at least 'AA' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Should any private mortgage insurers regain a rating of at least 'AA' from S&P, THDA will reconsider whether to resume purchasing conventional loans. Notwithstanding the foregoing, certain Program Loans allocated to Bonds under the General Resolution, either upon their direct transfer to the General Resolution or upon the refunding of other THDA obligations, are privately insured and are shown under the heading "Privately Insured" in the chart above.

Each private mortgage insurer insuring conventional, privately insured Program Loans was authorized by the Tennessee Commissioner of Commerce and Insurance to do business in the State of Tennessee and was approved by THDA. Since June 1994, only private mortgage insurance providers rated at least 'AA' by S&P were permitted to provide private mortgage insurance coverage for conventional, privately insured Program Loans. THDA does, however, have conventional, privately insured Program Loans that were made prior to January 2, 2009, outstanding under the Resolution that were insured by private mortgage insurers who are not currently rated at least 'AA' by S&P.

THDA makes no representation regarding the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to THDA of claims on Program Loans on which losses are incurred. Recent rating agency reviews of private mortgage insurers may be indicative of some future inability of private mortgage insurers generally to fulfill in full their obligations, if and when required upon a mortgage default, to make timely payments on policies. Any failure to make timely payments on the private mortgage insurance policies may disrupt the flow of revenues available for the payment of principal and interest on the Bonds.

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As of September 30, 2019 (unaudited), 609⁽¹⁾ privately insured Program Loans having an aggregate balance of approximately \$48,656,029 were outstanding under the General Resolution. As of September 30, 2019 (unaudited), THDA had the following information regarding the private mortgage insurers for 608 of these privately insured Program Loans:

<u>Name of Private Mortgage Insurer</u>	<u>Number of Program Loans</u>	<u>Outstanding Balance⁽³⁾</u>	<u>Percent of Total Number of Program Loans⁽³⁾</u>	<u>Percent of Total Outstanding Balance of Program Loans⁽³⁾</u>
Arch MI ⁽²⁾	102	\$ 7,917,690	0.50%	0.36%
Genworth Mortgage Insurance Corp. (GE)	253	20,475,605.11	1.24	0.92
MGIC	212	17,264,588	1.04	0.77
Radian Guaranty Inc.	5	161,023	0.02	0.01
Republic Mortgage Insurance Corporation	36	2,781,665	0.18	0.12
TOTAL	608	\$ 48,600,571⁽⁴⁾	2.98%⁽⁴⁾	2.18%⁽⁴⁾

(1) The private mortgage insurer is not identified with respect to 1 of these privately insured Program Loans as substantially all of these Program Loans were originated prior to the time THDA began compiling data with respect to individual private mortgage insurance providers.

(2) Purchased United Guaranty Residential Insurance Co.

(3) Rounded figures.

(4) Rounded total.

Program Loan Interest Rates

The following table summarizes, as of September 30, 2019 (unaudited), the interest rates of the outstanding Program Loans:

<u>Mortgage Rates (%)</u>	<u>Number of Program Loans⁽¹⁾</u>	<u>Outstanding Balance⁽²⁾</u>	<u>Percent of Total Number of Program Loans⁽²⁾</u>	<u>Percent of Total Outstanding Balance⁽²⁾</u>
0.00-1.99	176	\$ 7,449,772	0.86%	0.33%
2.00-2.99	2	151,645	0.01	0.01
3.00-3.99	4,211	518,766,817	20.65	23.27
4.00-4.49	3,353	386,556,454	16.44	17.34
4.50-4.99	8,427	1,069,969,934	41.32	48.00
5.00-5.49	1,207	91,006,611	5.92	4.08
5.50-5.99	1,535	88,933,832	7.53	3.99
6.00-6.49	442	31,565,255	2.17	1.42
6.50-6.99	586	24,724,794	2.87	1.11
7.00-7.49	200	5,853,801	0.98	0.26
7.50-7.99	179	2,801,876	0.88	0.13
8.00-8.49	70	1,364,829	0.34	0.06
8.50-8.99	4	6,745	0.02	0.00
9.00-9.49	3	17,814	0.01	0.00
9.50-12.00	1	2,913	0.00	0.00
TOTAL	20,396	\$2,229,173,093⁽³⁾	100.00%⁽³⁾	100.00%⁽³⁾

(1) See "RESIDENTIAL FINANCE PROGRAM LOANS—Description of Residential Finance Program Loans" for a description of types of Program Loans.

(2) Rounded figures.

(3) Rounded total.

Delinquency and Foreclosure Process; Real Estate Owned by THDA

For all Program Loans, THDA tracks (i) exceptions to normal, expected monthly payments; (ii) individual Program Loan balances; and (iii) remittances based on automated data received directly from its Servicers. THDA uses this data to calculate delinquency rates and foreclosures. Those Program Loans for which two payment dates have passed with no payment received by the last business day of the month in which the second payment was due are considered 60 to 89 days past due. Those Program Loans for which three or more payment dates have passed with no payments received by the last business day of the month in which the third payment was due are considered 90 or more

days past due. The status of Program Loans to borrowers who are in bankruptcy is fixed beginning at the time bankruptcy proceedings commenced. The definitions used by THDA to calculate delinquency rates and foreclosure rates are consistent with those used by the Mortgage Bankers Association of America ("MBA").

THDA, through Volunteer Mortgage Loan Servicing, manages delinquencies by working with borrowers in an attempt to avoid defaults and by communicating directly with borrowers who are delinquent. THDA supports counseling programs for delinquent as well as prospective borrowers. These counseling services are provided by lenders, non-profit organizations and social service agencies located throughout the State. THDA maintains an inventory of housing counseling services, reviews materials used, and encourages grant recipients to provide counseling.

Upon completion of the foreclosure process, THDA may hold title to properties previously financed by Program Loans ("Real Estate Owned"). THDA expects to sell Real Estate Owned or convey Real Estate Owned to the relevant insurer or guarantor of the underlying Program Loans. Sale proceeds or claims paid by the insurer or guarantor are deposited in the Debt Service and Expense account of the bond issue from which the foreclosed loan was originally funded. As of September 30, 2019, THDA held title to seventy-five (75) Real Estate Owned properties with a related Program Loan balance of approximately \$5,875,568.

Delinquencies and Foreclosures as of September 30, 2019

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.22%, based on a total of 20,396 Program Loans as of September 30, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due As of September 30, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2019, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2019

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	401	\$ 40,804,400	2.29%	0.86% ⁽⁴⁾
VA Guaranteed	6	669,904	1.35	0.77
Privately Insured	12	782,333	1.97	0.63 ⁽⁵⁾
USDA/RD Guaranteed.....	32	2,187,768	2.93	⁽⁶⁾
Uninsured.....	1	178,883	0.13	⁽⁶⁾
TOTAL	452	\$ 44,623,289 ⁽²⁾	2.22	

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2019.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.16%, based on a total of 20,396 Program Loans as of September 30, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2019, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	756	\$ 77,396,917	4.32%	1.43% ⁽⁴⁾
VA Guaranteed	13	1,474,400	2.92	1.11
Privately Insured	29	2,359,233	4.76	0.87 ⁽⁵⁾
USDA/RD Guaranteed.....	33	2,426,949	3.02	(6)
Uninsured.....	17	1,070,143	2.25	(6)
TOTAL	848	\$ 84,727,643 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.27%, based on a total of 20,396 Program Loans as of September 30, 2019 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of September 30, 2019 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2019, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	45	\$ 4,858,776	0.26%	0.40% ⁽⁴⁾
VA Guaranteed	1	26,788	0.22	0.61
Privately Insured	4	427,422	0.66	0.35 ⁽⁵⁾
USDA/RD Guaranteed.....	5	329,375	0.46	(6)
Uninsured.....	1	74,107	0.13	(6)
TOTAL	56 ⁽⁷⁾	\$ 5,716,468 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

(7) Does not include Real Estate Owned property (See “-Delinquency and Foreclosure Process; Real Estate Owned by THDA”) above.

Historical delinquency and foreclosure information for the General Resolution is contained in Appendix I.

DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS

General

As of September 30, 2019, the Transferred Program Loans (excluding participations therein) have an approximate weighted average maturity of 252 months and a weighted average interest rate of 4.80% per annum. Average prepayment rate information for the Transferred Program Loans is discussed in “DESCRIPTION OF THE TRANSFERRED PROGRAM LOANS – Prepayment Experience of Transferred Program Loans” below. The Transferred Program Loans were allocable to Issue 2010-B Bonds, which Issue 2010-B Bonds will be redeemed with proceeds of the Issue 2019-4 Bonds. It is anticipated that the characteristics of the pool of Transferred Program Loans will be substantially similar to the loans described below (such information below is as of September 30, 2019 (unaudited); the Transferred Program Loans will not be allocable to the Offered Bonds until December 11, 2019, and Transferred Program Loan characteristics may change from September 30, 2019, to December 11, 2019).

Transferred Program Loans by Loan Type

<u>Type of Mortgage</u>	<u>Number</u>	<u>Principal Amount⁽³⁾</u>	<u>% of Transferred Principal Amount</u>
FHA Insured	383	\$ 31,525,232	96.31%
VA Guaranteed	4	384,707	1.18
Privately Insured ⁽¹⁾	0	0	0.00
USDA/RD Guaranteed	8	672,740	2.06
Uninsured ⁽²⁾	2	150,000	0.46
TOTAL	<u>397</u>	<u>\$ 32,732,679⁽⁴⁾</u>	<u>100.00%</u>

(1) This includes Program Loans for which private mortgage insurance was in place at the time of the closing of the respective Program Loan.

(2) 22% minimum equity interest by borrower at time of closing if closed on or after July 29, 1999, or 25% minimum equity if closed prior to July 29, 1999. Also includes Program Loans which were privately insured at the time of closing but have since met the requirements of the Homeowner Protection Act of 1998 for termination of private mortgage insurance.

(3) Rounded figures.

(4) Rounded total.

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Prepayment Experience of Transferred Program Loans

The Transferred Program Loans are composed of mortgage loans originally allocable to the Issue 2010-B Bonds. The table set forth below lists the actual average prepayment rate (principal only) experience as a percentage of the PSA Prepayment Model of the mortgage loans allocable to the Issue 2010-B Bonds for the 3 month, 6 month and 12 month periods ended on September 30, 2019, based on principal prepayment data available to THDA.

<u>Issue</u>	<u>3 Months</u>	<u>6 Months</u>	<u>12 Months</u>	<u>Since Inception</u>	<u>Weighted Average Interest Rate</u>
2010-B	152%	160%	179%	176%	4.80%

Delinquency Information for the Transferred Program Loans

The overall delinquency rate for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.77%, based on a total of 397 Transferred Program Loans as of September 30, 2019 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending June 30, 2019, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2019

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance⁽¹⁾</u>	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	11	\$ 836,927	2.87%	0.86% ⁽⁴⁾
VA Guaranteed	0	0	0	0.77
Privately Insured	0	0	0	0.63 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0	0	(6)
Uninsured.....	0	0	0	(6)
TOTAL.....	11	\$ 836,927 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2019.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

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The overall delinquency rate for the Transferred Program Loans that were ninety (90) days past due was 7.56%, based on a total of 397 Transferred Program Loans as of September 30, 2019 (unaudited).

Delinquency rates by loan type for the Transferred Program Loans that were ninety (90) days past due as of September 30, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA, by loan type, for fixed rate mortgages for the quarter ending June 30, 2019, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	28	\$ 2,436,396	7.31%	1.43% ⁽⁴⁾
VA Guaranteed	0	0.00	0.00	1.11
Privately Insured	0	0.00	0.00	0.87 ⁽⁵⁾
USDA/RD Guaranteed.....	2	190,603	25.00	(6)
Uninsured.....	0	0.00	0.00	(6)
TOTAL.....	30	\$ 2,627,000 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

The overall rate of Transferred Program Loans in foreclosure was .25%, based on a total of 397 Transferred Program Loans as of September 30, 2019 (unaudited).

The foreclosure rate by loan type for the Transferred Program Loans in foreclosure as of September 30, 2019 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA, by loan type, for the quarter ending June 30, 2019, are shown in the following table:

IN FORECLOSURE AS OF SEPTEMBER 30, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	1	\$ 107,147	0.26%	0.40% ⁽⁴⁾
VA Guaranteed	0	0.00	0.00	0.61
Privately Insured	0	0.00	0.00	0.35 ⁽⁵⁾
USDA/RD Guaranteed.....	0	0.00	0.00	(6)
Uninsured.....	0	0.00	0.00	(6)
TOTAL.....	1	\$ 107,147 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

(6) MBA does not report data in these categories.

FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM

Consolidated Revenues and Net Position

The following table summarizes consolidated revenues and net position for the Residential Finance Program for the five most recent years and for the twelve months ended June 30, 2019, and June 30, 2018. Data in the table is expressed in thousands and is taken from THDA's audited financial statements as of and for the years ended June 30, 2018, 2017, 2016, 2015, and 2014, and from unaudited financial information of THDA for the twelve months ended June 30, 2019, and June 30, 2018.

	Year Ended June 30 (Unaudited)			Year Ended June 30 (Audited)		
Residential Finance Bond Group	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES:						
Interest on Mortgages	\$ 85,013	\$ 62,297	\$ 49,298	\$ 36,426	\$ 25,393	\$ 13,518
Investment Income:						
Interest	4,505	3,152	1,617	2,011	1,866	335
Net Increase (decrease) in the Fair Value of Investments	4,486	(1,736)	(792)	(320)	(552)	(146)
Fees and Other Income	<u>168</u>	<u>724</u>	<u>853</u>	<u>953</u>	<u>160</u>	<u>-</u>
	94,172	64,437	50,976	39,070	26,867	13,707
EXPENSES:						
Interest	56,057	40,142	30,542	24,876	17,058	9,087
Issuance Cost	5,583	3,812	3,602	2,311	2,343	2,167
Mortgage Servicing Fees	423	4,748	3,857	2,967	2,048	980
Other	<u>1,654</u>	<u>1,254</u>	<u>970</u>	<u>1,157</u>	<u>1,001</u>	<u>239</u>
	63,717	49,956	38,971	31,311	22,450	12,473
Excess of Revenues over Expenses	30,455	14,481	12,005	7,759	4,417	1,234
Net Position at beginning of period	194,764	176,030	116,295	101,055	105,707	(68,279)
Other Transfers	<u>23,344</u>	<u>4,253</u>	<u>47,730</u>	<u>7,481</u>	<u>(9,069)</u>	<u>172,752</u>
Net Position at end of period	<u>\$ 248,563</u>	<u>\$ 194,764</u>	<u>\$ 176,030</u>	<u>\$ 116,295</u>	<u>\$ 101,055</u>	<u>\$ 105,707</u>

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Investments

THDA's non-mortgage investments of funds held under the General Resolution consist of Investment Securities as authorized in the Resolution. THDA solicits bids in an effort to obtain the highest available yield with consideration given to maintaining a balanced portfolio. As of September 30, 2019 (unaudited), the General Resolution investment portfolio was placed as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 75,616,439	\$ 50,316,016
Federal Home Loan Mortgage Corporation Notes	17,947,868	14,314,836
Fannie Mae Notes	0	10,165,913
TOTAL.....	<u>\$ 93,564,307</u>	<u>\$ 74,796,765</u>

As of September 30, 2019 (unaudited), amounts in the Bond Reserve Fund, a portion of the General Resolution investment portfolio described above, were invested as follows:

<u>Types of Investments</u>	<u>Short Term⁽¹⁾</u> <u>Amount</u>	<u>Long Term⁽²⁾</u> <u>Amount</u>
Federal Home Loan Bank Notes	\$ 6,985,970	\$ 21,780,368
Federal Home Loan Mortgage Corporation Notes	9,952,208	13,887,646
Fannie Mae Notes	0	8,940,703
TOTAL.....	<u>\$ 16,938,178</u>	<u>\$ 44,608,717</u>

(1) Short term investments include cash equivalents and investments that mature in one year or less.

(2) Long term investments include investments that mature in more than one year regardless of call features.

THDA

Purpose and Organization

THDA is a body, politic and corporate, and a political subdivision and instrumentality of the State. THDA was established in 1973 by the Act for the purpose, among other things, of raising funds through the issuance of its bonds and notes to assure a steady flow of production of new housing units for lower and moderate income persons and families. To carry out its public purposes, THDA has various powers under the Act including, without limitation, powers relating to the issuance of bonds or notes and the financing of residential housing in the State.

In accordance with Tennessee law, state entities, including THDA, are subject to periodic review by the General Assembly to evaluate the necessity for their continued existence. THDA's existence has been continued until June 30, 2022.

Under the Act, THDA may have bonds and notes outstanding in an aggregate principal amount not exceeding \$2,930,000,000. As of September 30, 2019 (unaudited), THDA has bonds and notes outstanding in an aggregate principal amount of \$2,300,485,000, calculated in accordance with the Act.

Board of Directors

THDA is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as *ex officio* board members of THDA. The Act provides that six board members be appointed by the Governor from among the following groups: retail building material supply, manufactured housing, home building, mortgage banking, licensed real estate brokers, local public housing authority, local government and qualifying non-profits. The Act also provides for a board member to be appointed by the Speaker of the State Senate, a board member to be appointed by the Speaker of the State House of Representatives, one at-large board member appointed by the Governor who is knowledgeable about the problems of inadequate housing conditions in Tennessee and any board members as may be required by applicable federal law or regulation. Any change in the status or profession of an appointed board member does not affect the position or term of that board member. The Executive Director of THDA serves as Secretary to the board.

Board members (other than *ex officio* members and the federally required resident member) are appointed for four year terms, serve until their successors are duly appointed and qualified, and receive no compensation except for reimbursement of expenses. Certain board members may be affiliated with institutions which may originate or service Program Loans on behalf of THDA. One of the appointed board members is designated by the Governor to serve as Chairman. The Chairman's term extends until the earlier of the date of expiration of his or her term or a date six months after expiration of the term of the Governor designating such Chairman.

The name, term of office and principal occupation of the current members of the Board of Directors are shown below:

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Dorothy L. Cleaves	June 30, 2020	Community Development Manager, SunTrust Bank Memphis, TN
Tre Hargett ⁽¹⁾	January, 2021	Secretary of State
Michael L. Hedges, Chairman	June 30, 2021	Retired, Pleasant View, TN
Regina Hubbard	June 30, 2020	Broker, Fast Track Realty Memphis, TN
John Krenson	June 30, 2020	CEO, Operation Stand Down Nashville, TN
David H. Lillard, Jr. ⁽¹⁾	January, 2021	State Treasurer
Stuart McWhorter ⁽¹⁾	(2)	Commissioner, Department of Finance and Administration
Erin Merrick ⁽¹⁾	(2)	Deputy Counsel to the Governor
Austin McMullen	June 30, 2023	Member, Bradley Arant Boult Cummings LLP Nashville, TN
Christine Rhea	June 30, 2023	President, Mortgage Investors Group Knoxville, TN
Rick Neal	June 30, 2023	Senior Vice President, Pinnacle Financial Partners Memphis, TN
John K. Snodderly	June 30, 2023	Executive Director, LaFollette Housing Authority LaFollette, TN
Lynn Tully	June 30, 2020	Development Services Director, City of Kingsport Kingsport, TN
Justin Wilson ⁽¹⁾	January, 2021	Comptroller of the Treasury
Daisy Fields	(3)	Gallatin, TN

(1) Ex officio member.

(2) Serves at pleasure of the Governor.

(3) This is the resident board member required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E. The term of this board member is subject to requirements related to continuing participation in the Section 8 Voucher Program and is no longer than four years. This board member is authorized to take part in or vote only on matters related to the administration, operation and management of THDA's Section 8 tenant-based rental assistance programs.

Executive Staff Members

THDA employs a staff of approximately 267 persons, which includes professionals in various fields relating to housing and mortgage lending. Executive staff members involved with Program Loans include:

Ralph M. Perrey – Executive Director since 2012. Formerly, Fannie Mae (2000-2012); Office of Tennessee Governor Don Sundquist (1995-1999); Office of U.S. Representative 7th District Tennessee (1987-1994). B.S., Frostburg (MD) State University.

Wayne Beard, C.P.A. – Director of Finance since 2002. THDA employee since 1985. B.S., Tennessee Technological University.

Joseph W. Brown, Jr., C.P.A. – Controller since 2003. THDA employee since 1992. Formerly, Comptroller of the Treasury of Tennessee, Division of State Audit (1990–1992); Lorenz Creative Services (1984–1990). B.S., East Tennessee State University.

Steve Fisher – Director of Mortgage Loan Administration since 2018. THDA employee since 2016. Formerly, West Virginia Housing Development Fund (1989-2016). B.S., The Ohio State University; M.B.A., West Virginia Graduate College. Licensed Mortgage Loan Originator (2009).

Lindsay Hall – Chief Operating Officer of Single Family Programs since 2015. THDA employee since 2010. Formerly, A Better Way Realty, Inc. (2009); William E. Wood at the Mall (2008-2009); Wells Fargo Home Mortgage (2000-2007); Charter Mortgage (1999); Aztec Mortgage (1997-1999); First Security Bank, N.A. (1994-1997); Savage Thomas Homes (1993-1994); NVR Homes, Inc. (1988-1993); PaineWebber Mortgage Finance Co. (1986-1988). Licensed Residential Real Estate Appraiser (2008); VA Licensed Real Estate Salesperson (2008-2010); Licensed Mortgage Loan Originator (2010). B.S., Middle Tennessee State University.

Trebia Johns – Director of Mortgage Loan Servicing since February, 2019. THDA employee since 2016. Formerly, Ingram Industries, Nashville, Tennessee (2016); Green Tree Servicing, Goodlettsville, TN (1991-2015).

Lynn E. Miller – Chief Legal Counsel since 1993. THDA employee since 1993. Formerly, Boulton, Cummings, Conners & Berry (currently Bradley Arrant Boulton Cummings), Nashville, Tennessee (1987-1993); Chattanooga-Hamilton County Regional Planning Commission (1981-1984); Tennessee State Planning Office (1978-1981). B.A., Wittenberg University; M.S.P., University of Tennessee; J.D., Vanderbilt University.

Gathelyn (Gay) Oliver, C.P.A. - Director of Internal Audit since 2013. Formerly, Tennessee Department of Human Services (2010-2013); Randa Solutions (2009-2010); Beacon Technologies (2007-2009); BellSouth (1999-2007); Tennessee Department of Revenue (1988-1997, 1998-1999); Tennessee Department of Environment and Conservation (1997-1998). B.B.A., Middle Tennessee State University, M.B.A., Vanderbilt University Owen Graduate School of Management.

Trent Ridley – Chief Financial Officer since 2006. THDA employee since 2006. Formerly, Tennessee Department of Health (2000-2006); Tennessee Rehabilitative Initiative In Correction (1999-2000); Service Merchandise (1997-1998); National Auto Truckstops, Capital Accounting (1995-1997); Tennessee Department of Finance & Administration (1990-1995). B.B.A., Middle Tennessee State University.

THDA's principal office is located at 502 Deaderick Street, 3rd Floor, Nashville, Tennessee 37243-0200, and its telephone number is (615) 815-2200. THDA has regional offices in four (4) locations elsewhere in the State for the purpose of administering the Housing Choice Voucher rental assistance program.

THDA Funds

Statutorily Created Funds

In 1988, the General Assembly of the State of Tennessee (the "State") amended the Act to provide, among other things, for the creation of the Housing Program Fund and the Assets Fund, which funds are financially separate from the General Resolution and all of the other general bond resolutions and mortgage loan programs of THDA.

The Housing Program Fund is the vehicle used by THDA to fund non-mortgage programs not otherwise funded through federal programs. Essentially, all revenues of THDA derived from sources other than the General Resolution or other bond resolutions are deposited into the Housing Program Fund. Amounts in the Housing Program Fund currently include investment income from the Housing Program Fund, federal funds received by THDA for the administration of federal programs, and fees charged by THDA in connection with its non-mortgage programs. Amounts in the Housing Program Fund are not pledged as security for the Offered Bonds.

The Assets Fund is a segregated fund of THDA that originally contained assets transferred in 1989 from the 1974 General Resolution in accordance with its terms, together with related investment earnings, but which presently has a balance of \$0. Amounts in the Assets Fund, if any, are not pledged as security for the Offered Bonds.

Prior Transfers from THDA

The Constitution of the State requires, for current operations, that expenditures for any fiscal year not exceed the State's revenues and reserves, including the proceeds of any debt obligations, for that year. When faced with budget deficits in the past, the State has called upon THDA and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to THDA.

As of June 30, 1995, \$15,000,000 in THDA's Housing Program Reserve Fund was transferred to the State General Fund to assist in balancing the State budget for fiscal year 1994-1995.

As of June 30, 1998, \$43,000,000 was transferred from THDA to the State General Fund to assist in balancing the State budget for fiscal year 1997-1998. The \$43,000,000 transferred from THDA to the State General Fund came from the following resources of THDA: (i) \$15,459,157 from state tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. In addition, in conjunction with the transfer from the Housing Program Reserve Fund described in clause (ii), the Housing Program Reserve Fund was statutorily abolished.

Amendments to the Act in 1999 and in 2000, temporarily, then permanently, redirected to the State General Fund, all tax revenue previously directed by the Act to THDA for the HOUSE Program, a grant program no longer administered by THDA. As a result of the permanent redirection of these state tax revenues, no state tax revenues currently are appropriated to THDA.

Additionally, as of June 30, 2002, \$35,367,449.26 was transferred from THDA's Assets Fund to the State General Fund to assist in balancing the State budget for fiscal year 2001-2002. The remaining balance of the Assets Fund, approximately \$1,387,000 of mortgage loans, was not required to be liquidated and the proceeds transferred. THDA subsequently transferred these mortgage loans to the General Fund of the Housing Bond Resolution (Mortgage Finance Program) which reduced the balance in the Assets Fund to \$0.

No additional resources of THDA have been redirected or transferred to the State General Fund to close out any fiscal year since the fiscal year ended June 30, 2002.

Notwithstanding the foregoing, if projected State budget needs outstrip actual or projected revenues, the State may seek additional sources of funds or seek to realize program savings through reductions or more efficient delivery of services; however, THDA cannot predict whether or not this will occur or, if it does, what actions may be proposed or eventually taken and what effect, if any, such actions may have on THDA. If action is taken to redirect or transfer THDA resources to the State General Fund, such amounts could include THDA resources that are not pledged to any bonds of THDA, as well as any available excess revenues eligible for withdrawal under THDA bond resolutions, including the General Resolution. No assurance can be made that the current ratings on the Bonds or other bonds of THDA can be maintained in the event funds are withdrawn from THDA bond resolutions, including the General Resolution.

Payment of THDA Operating Expenses, Including Program Expenses

THDA currently receives no funds from the State of Tennessee for operating and administrative expenses. THDA is authorized to pay all operating and administrative expenses, including certain Program Expenses of the General Housing Finance Program, with funds available therefor from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. THDA may pay certain expenses, such as Costs of Issuance, Underwriter's fees, initial Trustee's fees, and other similar costs from amounts on deposit in the Debt Service and Expense Account of the Revenue Fund. THDA currently expects to continue to pay certain Program Expenses, including ongoing Trustee's fees, servicing fees, foreclosure fees, and other similar costs from the Debt Service and Expense Account of the Revenue Fund. THDA expects to pay other Program Expenses and all operating and administrative costs and expenses that are not Program Expenses from THDA bond resolutions, including the General Resolution, and from other resources available to THDA. From this combination of resources, THDA believes it will have sufficient resources to pay Program Expenses and other THDA operating and administrative costs and expenses. Certain actions by the General Assembly of the State of Tennessee may affect future payment of operating and administrative expenses. Regardless of THDA's best efforts and in the event of additional transfers to the State, however, THDA could become reliant on State appropriations for the funding of THDA operations. No assurances can be given as to the amount of appropriation that may be available at any time.

Tennessee Consolidated Retirement System

General Information

THDA employees are authorized to participate in the Tennessee Consolidated Retirement System ("TCRS"), a defined benefit pension plan, pursuant to Tennessee Code Annotated Section 13-23-115(21). The general administration and responsibility for the proper operation of TCRS are vested in a twenty member Board of Trustees. The Treasury Department, a constitutional office in the legislative branch of state government, is responsible for the administration of TCRS, including the investment of assets in the plan, in accordance with state statute and in accordance with the policies, rules, and regulations established by the Board of Trustees. Information about TCRS is available on the Tennessee Department of Treasury website at <https://www.treasury.tn.gov/Retirement/Information-and-Resources/TCRS-Overview-and-Self-Service>.

The TCRS covers three (3) large groups of public employees; (1) state employees (including THDA employees) and higher education employees; (2) teachers; and (3) employees of certain local governments. There are 59,805 active members in TCRS in the state and higher education employee group at June 30, 2018. This total includes 267 employees of THDA who are members of TCRS.

The State of Tennessee is ultimately responsible for the financial obligation of the benefits provided by TCRS to state employees (including THDA employees) and higher education employees to the extent such obligations are not covered by employee contributions and investment earnings. The obligation is funded by employer contributions as determined by an actuarial valuation for the defined benefit plan or contributions to a defined contribution plan.

By statute, an actuarial valuation of TCRS is to be conducted at least once in each two year period. The purpose of the actuarial valuation is to determine the financial position of the plan and to determine the appropriate employer contribution rate called "actuarially determined contributions (ADC)". Beginning June 30, 2015, the funding policy adopted by the TCRS Board of Trustees provides for an actuarial valuation to be conducted as of June 30 of each year. Previously, actuarial valuations were conducted every other year.

Retirement Plan for Employees Hired Prior to July 1, 2014 ("Closed State and Higher Education Employee Pension Plan")

Employees hired prior to July 1, 2014 participate in a defined benefit plan as a condition of employment. The benefit accrual formula is 1.575% under the Closed State and Higher Education Employee Pension Plan. Eligibility to retire is age sixty (60) or thirty (30) years of service. Vesting is 5 years. Employees do not contribute to the plan. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

Retirement Plan for Employees Hired on or after July 1, 2014 ("State and Higher Education Employee Retirement Plan")

As authorized by Public Chapter 259, Acts of 2013, employees first hired on or after July 1, 2014, participate in a retirement plan consisting of a defined benefit plan and a defined contribution plan. Employees contribute 5% of salary

to the defined benefit plan. Employees also contribute 2% of salary to the defined contribution plan unless the employee opts out of making such contribution. The total employer cost for the two plans will be limited to 9% of salary with an overall 4% targeted to the defined benefit plan (minimum set by statute) and 5% to the defined contribution plan.

The defined benefit accrual formula under the State and Higher Education Employee Retirement Plan will be 1%. Eligibility to retire is age sixty-five (65) or the rule of ninety (90) (where age and service equals 90) under the plan. Vesting is 5 years. Retirees are entitled to cost of living adjustments after retirement. The actual amount of the increase is based on the consumer price index, up to a maximum of 3%.

The defined benefit component of the State and Higher Education Employee Retirement Plan has automatic cost controls and automatic controls over unfunded accrued liability. Within the retirement plan, there is a stabilization reserve created for any employer contributions that exceed the ADC that will be utilized to control cost and unfunded liabilities. Effective July 1, 2018, all future stabilization reserve contributions are held in a separate trust outside of TCRS for the benefit of each employer that participates in the stabilization reserve trust. The automatic controls are based on the results of the actuarial valuation. Control features include utilizing funds in the stabilization reserve (if any), limiting retiree cost of living adjustments, shifting future employer contributions from the defined contribution plan to the defined benefit plan, requiring additional employee contributions, and adjusting benefit accruals. The control features only apply to the State and Higher Education Employee Retirement Plan and do not apply to the Closed State and Higher Education Employee Pension Plan.

Actuarial Data for the Defined Benefit Retirement Plan for Employees Hired Prior to July 1, 2014

For employees hired prior to July 1, 2014, state agencies contribute to TCRS at the rates shown below based on salary. General state employees do not contribute to this plan.

Legacy Retirement Plan

Actuary Study performed as of date Contribution Period	6/30/2017	6/30/2018
	7/1/18-6/30/19	7/1/19-6/30/20
General State Employee	19.23%	19.66%
Public Safety Officer	22.72%	23.34%
Judicial Employee	25.55%	25.55%
Consolidated State Employee Rate	19.36%	19.80%

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2019 (measurement date of June 30, 2018), the net pension liability for the state and higher education employee group based on the market value of assets was \$1.62 billion, resulting in a plan fiduciary net position as a percentage of total pension liability of 90.26%.

Actuarial Data for the Defined Benefit Retirement Plan for Employees Hired on or after July 1, 2014

For employees hired on or after July 1, 2014, an actuarial valuation is performed to determine the total employer contribution rate as well as the actuarially determined contribution (ADC) and the stabilization reserve rate shown below. General state employees contribute 5% to this plan.

Hybrid Retirement Plan

Actuary Study performed as of date Contribution Period	6/30/2017	6/30/2018
	7/1/18-6/30/19	7/1/19-6/30/20
General State Employee		
Actuarially Determined Contribution Rate (ADC)	1.66%	1.73%
Stabilization Reserve Trust Rate (SRT)	2.29%	2.23%
Total General State Employee Rate	3.95%	3.96%
Public Safety Officer	4.80%	4.80%
Judicial Employee	7.31%	7.31%
Consolidated State Employee Rate	4.00%	4.00%

Additionally, an actuarial valuation is performed to determine the TCRS financial position in order to provide information related to Governmental Accounting Standards Board (GASB) pronouncements. At June 30, 2019 (measurement date of June 30, 2018), the net pension asset for the state and higher education employee group based on the market value of assets was \$38.6 million, resulting in a plan fiduciary net position as a percentage of total pension liability of 132.39%.

THDA Employer Contributions for Pensions (Defined Benefit and Defined Contribution Plan)

For THDA, the employer contribution rate for employees hired before July 1, 2014, stated as a percentage of salary, is as follows: 19.23% and 19.66% for the period July 1, 2018 through June 30, 2019 and for the period July 1, 2019 through June 30, 2020, respectively. For employees first hired after June 30, 2014, the employer rate is 8.95% for the period July 1, 2018 through June 30, 2019 and 8.96% for the period July 1, 2019 through June 30, 2020 (combined rate for defined benefit plan and defined contribution plan).

THDA's actual and estimated contributions for the pension plans are reflected in the following table:

Fiscal Year ended June 30	Employer Contribution Rate	Total Salary of THDA Employees	THDA Employer Contributions to TCRS	THDA Employer Contributions to DC (Open Plan)	Percentage of THDA Budget
2020 ⁽¹⁾	19.66/9.00% ⁽²⁾	\$ 19,305,900 ⁽¹⁾	\$ 2,523,399 ⁽¹⁾	\$ 275,466 ⁽¹⁾	2.28% ⁽¹⁾
2019	19.23/9.00% ⁽²⁾	16,031,733	2,026,516	347,409	2.14
2018	18.87/9.00% ⁽²⁾	14,498,364	1,945,832	262,903	1.97
2017	15.02/9.00 ⁽²⁾	13,396,776	1,577,092	183,030	1.53
2016	15.03/9.00 ⁽²⁾	11,965,554	1,581,407	100,999	1.38
2015	15.02/9.00 ⁽²⁾	11,569,902	1,673,881	28,731	1.21
2014	15.03	11,721,300	1,761,711		1.19
2013	15.03	11,315,872	1,692,847		1.26
2012	14.91	11,005,204	1,632,095		1.36
2011	14.91	10,593,944	1,585,654		1.25

(1) Estimated; final amount anticipated to be lower due to unfilled positions, staff turnover and salaries at less than the maximum permitted.

(2) Varies depending on plan the employee is enrolled in.

For the fiscal year ended June 30, 2018, the salary of THDA employees totaled \$14,498,364, which represents 0.48% of the \$3.0 billion of salary for all state and higher education employees in TCRS.

Defined Contribution Program

Defined Contribution Plan for employees hired prior to July 1, 2014

A voluntary defined contribution plan is provided to state employees and higher education employees giving them the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Defined Contribution Plan for employees hired on or after July 1, 2014

A defined contribution plan for state employees and higher education employees entering service on or after July 1, 2014, is a component of the State and Higher Education Employee Retirement Plan. By statute, employer contributions are made at the rate of 5% of salary to the 401(k) plan. However, employer contributions may be reduced as part of the cost controls and unfunded liability controls as previously described in the defined benefit plan component of the State and Higher Education Employee Retirement Plan. Upon employment, employees are automatically enrolled to contribute 2% of salary to the defined contribution plan but employees may elect to increase or decrease the employee contributions at any time.

General Information about the 401(k) and 457 Defined Contribution Plans

The state provides additional voluntary defined contribution plans to give state employees and higher education employees the opportunity to accumulate supplemental retirement income on a tax advantaged basis. The program offers employees two plans, a 457 plan and a 401(k) plan. The contributions to the 401(k) plan can be made to both traditional and/or Roth plans.

Employee contribution limits to the 401(k) and 457 plans are established by federal statute. In the 401(k) plan, available to state and higher education employees in both the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan, voluntary employee contributions are matched by employer contributions up to a maximum of \$50 per month. Employer contributions are subject to the funding being appropriated in the budget each fiscal year; otherwise, no match will be made by THDA. The THDA contribution for the fiscal year ended June 30, 2018 was \$75,204.37.

Employees are immediately vested in employee and employer contributions. Employees can choose to invest employer and employee contributions among a variety of investment products.

Other Post-Employment Benefits

Certain other GASB Statements (nos. 74 and 75) provide accounting and financial reporting requirements for retiree healthcare plans and employer participants, commonly known as Other Post-Employment Benefits ("OPEB"). To date, the State has reported OPEB costs in the aggregate for all State employees. The State received an actuarial study as of June 30, 2018, that includes OPEB costs attributable to the State and, separately, for certain of its component units (including THDA) that are required to participate in the State's retirement and benefit plans. The study, which used an entry age normal actuarial cost method, indicates that for the fiscal year ended June 30, 2019, the total unfunded actuarial liability of THDA is \$3,351,275 and the fiscal year 2019 OPEB expense for THDA is \$218,737. The current OPEB report for the Employee Group OPEB Plan will be made available for review, following the current year audit, at <https://www.tn.gov/finance/rd-doa/fa-accfin-opeb.html>. The State did not pre-fund any actuarially determined OPEB liability, and continued to use pay-as-you-go funding of actual costs of OPEB liabilities incurred for the measurement period covered in the most recent valuation. The State charged THDA for these actual costs allocable to THDA's employees, but not for any actuarially determined OPEB liability. However, during the fiscal year ended June, 30, 2019, the state transitioned to a prefunded arrangement where assets will be accumulated in a qualifying trust. Going forward, THDA will be charged according to an actuarially determined contribution (ADC) rate that is calculated for all participating employers in the employee group OPEB plan (EGOP). The State has the flexibility to adjust the various plan options on an annual basis, and will continue to analyze the cost of the choices available to current employees and retirees and the cost of the choices on the employees, retirees and the State's cash flow to manage these expenditures going forward.

General Resolution Requirements

The General Resolution requires certain conditions to be met prior to any withdrawal of funds from the lien of the General Resolution. See Appendix D, Section 5.3(F) for a description of these conditions. In addition, certain tests must also be met prior to any withdrawal of funds under the lien of the 1974 General Resolution, the 1985 General Resolution, and the 2009 General Resolution. THDA funds which are not pledged under the referenced Resolutions can be removed without meeting such tests.

Absence of Interest Rate Swap Transactions

THDA has never entered into an interest rate swap transaction and no such transaction is currently anticipated by THDA.

TAX MATTERS

THDA has included provisions in the Resolution, the Guide for Originating Agents issued by THDA and other relevant documents and has established procedures, including receipt of certain affidavits and warranties from Originating Agents and borrowers (the "Program Documents") in order to assure compliance with the Program Loan eligibility requirements and other requirements which must be met subsequent to the issuance of the Offered Bonds. Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with applicable federal tax law and, for such purpose, to adopt and maintain appropriate procedures. THDA believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the

requirements of applicable federal tax law so as to assure that interest on the Offered Bonds will not be included in the gross income of the owners thereof for federal income tax purposes.

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Offered Bonds will be excluded from gross income for federal income tax purposes under existing laws as enacted and construed on the date of the issuance of the Offered Bonds, assuming the accuracy of the certifications of THDA and continuing compliance by THDA with the requirements of the federal tax laws. Bond Counsel is also of the opinion that interest on the Issue 2019-4 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals under the alternative minimum tax provisions of the Code.

Ownership of the Offered Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with “excess net passive income”, taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Offered Bonds and taxpayers otherwise eligible to claim the earned income credit. Bond Counsel expresses no opinion as to such collateral tax consequences.

Certain recipients of interest on the Offered Bonds may be subject to backup withholding under Section 3406 of the Code, unless the recipient of interest furnishes its taxpayer identification number with the payor of the interest or is otherwise exempt from backup withholding tax.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Offered Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Offered Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Offered Bonds or the market value thereof would be impacted thereby. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions to be expressed by Bond Counsel will be based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Offered Bonds and Bond Counsel will express no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

In the opinion of Bond Counsel, under the laws of the State of Tennessee as enacted and construed on the date of issuance of the Offered Bonds, as applicable, interest on the Offered Bonds is exempt from income tax imposed by the State of Tennessee on interest income; however, the Offered Bonds and interest received thereon are included in the measure of privilege taxes imposed by the State of Tennessee.

An amount equal to the excess of the issue price of an Offered Bond sold at a premium (a “Premium Bond”) over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond’s term using constant yield principles, based on the purchaser’s yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser’s basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser’s basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or otherwise prevent beneficial owners of the Issue 2019-4 Bonds from realizing the full current benefit of the tax status of such interest, or adversely affect the market value of the Issue 2019-4 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time

announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Issue 2019-4 Bonds. Purchasers of the Issue 2019-4 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Issue 2019-4 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation, regulatory initiatives or litigation.

LEGAL INVESTMENT

The Act provides that the bonds of THDA are securities in which all public officers and bodies of the State and all municipal subdivisions, all insurance companies and associations and other persons carrying on insurance business, all banks, bankers, trust companies, including savings and loan associations, building and loan associations, investment banking companies and other persons carrying on an investment banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest in the bonds of THDA with funds, including capital, in their own control or belonging to them.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned the Offered Bonds a rating of 'Aa1' and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLP business ("S&P") has assigned the Offered Bonds a rating of 'AA+'. Such ratings reflect only the views of the respective rating agency and an explanation of the criteria for and the significance of such ratings may be obtained from Moody's and Standard & Poor's. THDA has furnished to Moody's and Standard & Poor's certain information and materials with respect to the Offered Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by these rating agencies, if in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

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

CONTINUING DISCLOSURE

Secondary Market Disclosure

THDA is currently disseminating and presently intends to continue to disseminate information relating to its various single-family mortgage revenue bonds in accordance with the quarterly secondary market disclosure project sponsored by the National Council of State Housing Agencies. THDA has filed quarterly reports, beginning with the quarter ending June 30, 1994, with each then nationally recognized municipal securities information repository. THDA also expects that its official statements, which contain audited financial information about THDA, with respect to bonds issued under the General Resolution, the 1985 General Resolution, and the 2009 General Resolution will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system if and when bonds are so issued. It is the present intent of THDA to continue making voluntary secondary market disclosure as described above.

Continuing Disclosure Undertaking

In order to comply with the requirements of Rule 15c2-12 as promulgated on the issue date of the Issue 2019-4 Bonds by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Rule"), THDA, in the Issue 2019-4 Supplemental Resolution for the benefit of the Beneficial Owners of the Issue 2019-4 Bonds, agrees to file:

(a) With the MSRB, within 210 days after the end of each THDA fiscal year, a copy of its annual financial statements, prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board, as described in "FINANCIAL STATEMENTS" below, and an annual update of the type of information in this Official Statement (i) of the nature disclosed under "RESIDENTIAL FINANCE PROGRAM BONDS," and "RESIDENTIAL FINANCE PROGRAM LOANS" including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, and delinquency information, (ii) contained in Appendix E hereto and (iii) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements (collectively, "Annual Financial Information"). If unaudited financial statements are provided as part of the Annual Financial Information by the above date, then THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB;

(b) In a timely manner, not in excess of 10 business days after the occurrence of the event, with the MRSB and the Trustee, notice of the occurrence of any of the following events (if applicable) with respect to the Offered Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; (iv) unscheduled draws on any credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Offered Bonds, or other material events affecting the tax status of the Offered Bonds; (vii) modifications to rights of holders of the Offered Bonds, if material; (viii) bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Offered Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA); (xiii) the consummation of a merger, consolidation, or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material; (xv) incurrence of a financial obligation of THDA, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of THDA, any of which affect bondholders, if material; and (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of THDA, any of which reflect financial difficulties.

For the purposes of the events identified in clauses (xv) and (xvi) above, the term "financial obligation" means: (A) a debt obligation; (B) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) a guarantee of (A) or (B). The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

(c) In a timely manner, to (i) the MRSB and (ii) the Trustee, notice of a failure by THDA to provide the Annual Financial Information set forth in (a) above within the time limit specified above.

THDA may amend the Issue 2019-4 Supplemental Resolution, with respect to the above agreements, without the consent of the Beneficial Owners of the applicable Issue of Offered Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (2) these agreements as so amended would have complied with the requirements of the Rule as of the date of the Issue 2019-4 Supplemental Resolution, after taking into account any amendments or

interpretations of the Rule, as well as any change in circumstances; (3) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) THDA shall deliver to the Trustee an opinion of or determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Offered Bonds, or (ii) the holders of the Offered Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Offered Bonds pursuant to the General Resolution as in effect on the date of the Issue 2019-4 Supplemental Resolution, and (5) THDA shall have delivered copies of such opinion(s) and the amendment to the MRSB.

THDA's obligations under these agreements as set forth in the Issue 2019-4 Supplemental Resolution terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Offered Bonds. THDA shall give notice of any such termination to the MSRB.

THDA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit for the Beneficial Owners of the Offered Bonds whether or not the Rule applies to such Bonds. Breach of this undertaking will not be a default under the Resolution but this undertaking may be enforced by any Beneficial Owner of the Offered Bonds exclusively by an action for specific performance. This undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this undertaking shall be instituted in a court of competent jurisdiction in the State.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Offered Bonds, a certificate of THDA and an opinion of counsel will be furnished, dated the date of delivery, to the effect that there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of THDA taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of THDA.

CERTAIN LEGAL MATTERS

The issuance of the Offered Bonds is subject to the delivery of the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel with respect to legal matters incident to the authorization, issuance, sale, and delivery of the Offered Bonds in substantially the form attached hereto as Appendix H. Certain legal matters will be passed upon for THDA by its Chief Legal Counsel, Lynn E. Miller, and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL STATEMENTS

The financial statements of THDA as of and for the year ended June 30, 2018, included in Appendix A have been audited by the Division of State Audit in the Office of the Comptroller of the Treasury of the State of Tennessee, independent auditors, as stated in their report appearing herein.

Appendix A also contains unaudited financial information as of and for the twelve months ended June 30, 2019. This financial information has been derived from the unaudited internal records of THDA. THDA's independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed an opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited information. The unaudited information is preliminary and is subject to change as a result of the audit and may materially differ from the audited financial statements when they are released.

UNDERWRITING

RBC Capital Markets, LLC, Citigroup Global Markets Inc., Raymond James & Associates, Inc., J.P. Morgan Securities LLC, Wells Fargo Bank, National Association, and Wiley Brothers—Aintree Capital, LLC (collectively, the "Underwriters") have agreed, subject to certain conditions, to purchase the Offered Bonds from THDA at the prices indicated on the inside cover of this Official Statement. The Underwriters will be paid a fee in connection with the purchase of the Offered Bonds in an amount equal to \$1,170,611.06. The obligations of the Underwriters to purchase the Offered Bonds are subject to certain conditions precedent. The Underwriters will be obligated to purchase all such Offered Bonds if any such Offered Bonds are purchased.

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

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Offered Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Offered Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Offered Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Offered Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

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MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representatives of fact. No representation is made that such statements will be realized. All financial and other information presented in this Official Statement has been provided by THDA from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and it is not intended to indicate future or continuing trends in the financial position or other affairs of THDA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. References to and summaries of provisions of the laws of the State or of any other documents referred to in this Official Statement are qualified in their entirety by reference to the complete provisions thereof. This Official Statement is not to be construed as a contract or agreement between THDA and the purchasers or holders of any of the Offered Bonds.

The information contained herein is subject to change without notice and no implication should be derived therefrom or from the issuance, as applicable, of the Offered Bonds that there has been no change in the affairs of THDA from the date hereof. Pursuant to the General Resolution, THDA has covenanted to keep proper books of record and account in which full, true and correct entries will be made of all its dealings and transactions under the General Resolution and to cause such books to be audited for each fiscal year. The General Resolution requires that such books be open to inspection by the holder of any Bond during regular business hours of THDA and that THDA furnish a copy of the auditor's report, when available, upon request of the holder of any outstanding Bond. This Official Statement is submitted in connection with the sale of the securities referred to herein which are proposed to be issued by THDA. It may not be reproduced or used in part, or, as a whole or in part, for any other purpose.

TENNESSEE HOUSING DEVELOPMENT AGENCY

/s/ Michael L. Hedges

Chair

/s/ Ralph M. Perrey

Executive Director



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Board of Directors
Mr. Ralph Perrey, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Tennessee Housing Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Housing Development Agency. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Housing Development Agency.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension asset for the State and Higher Education Retirement Plan, the schedule of proportionate share of net pension liability for the Closed State and Higher Education Pension Plan, the schedule of contributions to the State and Higher Education Employee Retirement Plan, the schedule of contributions to the Closed State and Higher Education Employee Pension Plan, the schedule of proportionate share of the collective total other postemployment benefit liability for the Closed State Employee Group OPEB Plan, and the schedule of proportionate share of the collective total other postemployment benefit liability for the Closed Tennessee OPEB Plan, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic

financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the agency's internal control over financial reporting and compliance.

A handwritten signature in dark ink, appearing to read "Deborah Loveless". The signature is fluid and cursive, with the first name "Deborah" and last name "Loveless" clearly distinguishable.

Deborah V. Loveless, CPA, Director
Division of State Audit
December 11, 2018

TENNESSEE HOUSING DEVELOPMENT AGENCY
Management's Discussion and Analysis
June 30, 2018

This section of the Tennessee Housing Development Agency's (THDA) annual financial statements presents management's discussion and analysis of THDA's financial performance for the year ended June 30, 2018, with comparative information presented for the fiscal year ended June 30, 2017. This information is being presented to provide additional information regarding the activities of THDA and to meet the financial reporting and disclosure requirements of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

Introduction – The Tennessee Housing Development Agency

The mission statement of THDA is "Leading Tennessee Home by creating safe, sound, affordable housing opportunities." THDA's goal is to provide housing assistance to those in need by offering a variety of housing-related programs. One of the primary ways THDA assists Tennesseans is by offering mortgages for first-time homebuyers at below conventional market interest rates. At the close of fiscal year 2018, THDA has originated over 120,400 single-family mortgage loans in its 45-year history, and serves as the master servicer for all active mortgages it funds. In addition to helping homebuyers, THDA administers Section 8 rental assistance programs, including the tenant-based Housing Choice Voucher (HCV) program in approximately 70 of Tennessee's 95 counties, as well as the project-based Contract Administration program for approximately 385 contracts throughout all of Tennessee. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of bond authority to be allocated to local issuing authorities for specific multifamily developments.

As established by statute, "The agency shall have a board of directors which shall be responsible for carrying out the powers given to the agency. . ." (*Tennessee Code Annotated*, Section 13-23-105). This board meets regularly on a bimonthly basis; however, some committees may meet more often as situations dictate.

Overview of the Financial Statements

The basic financial statements include statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows, as well as notes to the financial statements. The statement of net position provides financial information on the overall financial position of THDA at each year end. The statement of revenues, expenses, and changes in net position summarizes the results of operations over the course of each fiscal year. The statement of cash flows provides relevant information about THDA's cash receipts and cash payments during each fiscal year.

The notes to the financial statements provide essential information regarding THDA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies, and subsequent events.

THDA's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, required and other supplementary information is included.

THDA is also considered to be a discretely presented "component unit" for the State of Tennessee, and therefore, its financial information is reported in the State of Tennessee's government-wide *Comprehensive Annual Financial Report*. This report may be viewed at <https://www.tn.gov/finance/fa/fa-accounting-financial/fa-accfin-cafr.html>.

During fiscal year 2018, THDA implemented accounting standard GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The Statement establishes new accounting and financial reporting procedures for postemployment benefits other than pensions. Implementation of this Statement resulted in a revision of THDA's Net Position as of July 1, 2017, which has been reported as a Prior Period Adjustment.

Financial Highlights

Year Ended June 30, 2018

- Total assets increased by \$164.7 million, or 6.4%.
- Total liabilities increased by \$164.8 million, or 8.0%.
- Net position was \$509.9 million. This is an increase of \$1.7 million, or 0.34%, from fiscal year 2017 net position (as adjusted).
- Cash and cash equivalents decreased by \$86.2 million, or 23.4%.
- Total investments increased by \$54.1 million, or 26.2%.
- Bonds payable increased by \$148.3 million, or 7.5%.
- THDA originated \$463.4 million in new loans, which is an increase of \$137.6 million, or 42.2%, from the prior year.

Financial Analysis of the Agency

Net Position – The following table focuses on the changes in net position between fiscal years (expressed in thousands):

	2018	2017
Current assets	\$ 406,809	\$ 427,265
Capital assets	2,876	1,809
Other noncurrent assets	2,330,505	2,146,413
Total assets	2,740,190	2,575,487
Deferred outflows of resources	4,609	4,726
Current liabilities	170,949	185,772
Noncurrent liabilities	2,063,595	1,883,961
Total liabilities	2,234,544	2,069,733
Deferred inflows of resources	365	514
Invested in capital assets	2,876	1,809
Restricted net position	438,516	430,633
Unrestricted net position	68,498	77,524
Total net position	\$ 509,890	\$ 509,966

2018 to 2017

First and second mortgage loans receivable (net of allowance for forgivable second mortgages) increased by \$188.5 million. During fiscal year 2018, single-family mortgage loan originations increased by \$137.6 million, whereas mortgage loan payoffs increased by \$20.6 million and mortgage loan repayments increased \$3.6 million. In addition, THDA recognized an allowance for future uncollectable forgivable second mortgages of \$14.0 million for fiscal year 2018.

Total liabilities increased \$164.8 million. The increase is primarily due to a \$148.3 million increase of bonds payable at June 30, 2018, as compared to June 30, 2017.

Changes in Net Position – The following table summarizes the changes in revenues, expenses, and changes in net position between fiscal years (expressed in thousands):

	2018	2017
Operating revenues		
Mortgage interest income	\$ 90,105	\$ 87,963
Investment income	2,738	1,743
Other	20,482	18,546
Total operating revenues	113,325	108,252
Operating expenses		
Interest expense	58,239	56,892
Other	45,368	41,980
Total operating expenses	103,607	98,872
Operating income	9,718	9,380
Nonoperating revenues (expenses)		
Grant revenues	317,326	277,877
Grant expenses	(325,340)	(288,223)
Total nonoperating revenues (expenses)	(8,014)	(10,346)
Change in net position	\$ 1,704	\$ (966)

2018 to 2017

Total operating revenues increased \$5.1 million, primarily due to an increase in mortgage interest income of \$2.1 million and federal grant administration fees of \$1.5 million. During fiscal year 2018, certain long-term investments with high interest yields matured, which were re-invested into other investments having contemporary investment yields. In addition, fair value of investments decreased by \$4.2 million in fiscal year 2018.

Total operating expenses increased \$4.7 million. This is primarily due to a bond debt strategy to use mortgage loan prepayments to call bonds on a monthly basis, as well as refunding outstanding bonds with new bonds bearing a lower interest rate, and an increase in salary and benefits expense.

Nonoperating grant revenues increased \$39.5 million and nonoperating grant expenses increased \$37.1 million. The increases are due to the first full year of implementation of the down payment assistance program during fiscal year 2018.

Debt Activity – Bonds outstanding at June 30 were as follows (expressed in thousands):

	2018	2017
Bonds payable	\$2,128,712	\$1,980,456

Year Ended June 30, 2018

Total bonds payable increased \$148.3 million, which is deemed an insignificant year-over-year variance primarily attributable to an increase in mortgage loan production. During the fiscal year, THDA issued debt totaling \$459.7 million, with activity arising from four bond issues.

With interest rates remaining at historically low levels, THDA continued to call bonds with proceeds from mortgage repayments and prepayments. THDA refunded \$34.6 million of outstanding bonds into new bond originations with lower interest rates. In addition to the nominal tax-exempt mortgage revenue bonds issued, THDA also issued one taxable bond issue in fiscal year 2017 primarily for economic refunding opportunities.

Bond Ratings

For bonds issued under the Homeownership Program Bonds, Moody's Investor Service, Inc. (Moody's) has assigned THDA's bonds a rating of Aa1, and Standard and Poor's (S&P), a division of The McGraw-Hill Companies, Inc., has assigned THDA's bonds a rating of AA+.

For bonds issued under the Housing Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa2. These bonds are not rated by S&P.

For bonds issued under the Residential Finance Program Bonds, Moody's has assigned THDA's bonds a rating of Aa1 and S&P has assigned THDA's bonds a rating of AA+.

Debt Limits

In accordance with *Tennessee Code Annotated*, Section 13-23-121, THDA operates under a "debt ceiling" of \$2,930,000,000.

Grant Programs

During fiscal year 2007 through fiscal year 2009, the General Assembly appropriated revenue to THDA for grant programs. Likewise, THDA's board of directors allocated additional THDA funds for grants. These funds established a grant program that was titled by THDA the "Tennessee Housing Trust Fund."

The four-level model for funding this grant program includes state appropriations, THDA funds, private sector investment, and matching funds from local grantees. The purpose of this grant program is to serve the needs of low and/or very low income, elderly, and special needs Tennesseans. Funding and uses for the Housing Trust Fund are as follows:

	2018	2017	2016 and Prior	Total
Funding Sources:				
THDA	\$7,500,000	\$7,500,000	\$67,300,000	\$82,300,000
State Appropriation	-	-	4,350,000	4,350,000
Totals	\$7,500,000	\$7,500,000	\$71,650,000	\$86,650,000
Approved Uses:				
Rural repair program (USDA)	\$ -	\$ -	\$ 6,300,000	\$ 6,300,000
Ramp Programs & Hsg Modification	300,000	300,000	1,350,000	1,950,000
Emergency Repairs	2,700,000	2,700,000	18,500,000	23,900,000
Competitive Grants	3,500,000	3,500,000	37,600,000	44,600,000
Rebuild & Recover	500,000	500,000	3,300,000	4,300,000
Other Grants	500,000	500,000	4,600,000	5,600,000
Totals	\$7,500,000	\$7,500,000	\$71,650,000	\$86,650,000

Current Mortgage Products and Environment

THDA offers a variety of mortgage loan products to address the needs of Tennesseans across the State. The Great Choice loan program offers THDA the opportunity to offer a more competitive interest rate on its 30-year fixed rate mortgage product while still offering down payment assistance with the addition of the Great Choice Plus loan program, which is a second mortgage at a 0% interest rate for a term of 10 years. During fiscal year 2015, the Great Choice Plus loan product was modified to a forgivable second mortgage, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced within the first nine years of closing. Beginning in year 10, the loan is forgiven at the rate of 20% per year. The loan is fully forgiven at the end of year 15. Subsequently, in October of 2016, the Great Choice Loan product was revised to feature a 30-year forgiveness requirement, in which 100% of the loan amount must be repaid if the home is sold or the associated first mortgage is refinanced or otherwise paid in full within the first 30 years of closing.

A special interest rate reduction on the Great Choice loan program has been designated to ensure that qualified service men and women have access to affordable homeownership opportunities. This special offer, referred to as “Homeownership for the Brave,” provides a 0.5% rate reduction on the current interest rate for Great Choice loans. In addition to the rate reduction, Homeownership for the Brave applicants are eligible for optional down payment and closing cost assistance through the Great Choice Plus second mortgage loan at a 0% interest rate.

All first mortgage loans made or purchased by THDA are fixed-rate mortgages with a maximum loan term of 360 months (30 years), and must conform to insurer / guarantor underwriting guidelines. THDA does not make or purchase adjustable rate mortgages, interest-only mortgages, “buy-down” loans, mortgages with a future lump-sum payment due (balloon-type mortgages), or with other similar mortgage terms. THDA does not make or purchase “sub-prime” mortgage loans.

Single-family mortgage loans purchased by THDA with loan-to-value (LTV) ratios between 78% and 97% must have an acceptable insurer/guarantor, which includes:

- FHA (United States Department of Housing and Urban Development)
- VA (Veterans Administration Guaranty Program)
- USDA/RD (the United States Department of Agriculture - Rural Development, formerly Farmers Home Administration)
- Private mortgage insurance

THDA will accept private mortgage insurance provided from private mortgage insurers who are licensed by the Tennessee Commissioner of Commerce and Insurance to do business in Tennessee and are rated at least AA by S&P. THDA will allow privately insured loans underwritten using nationally accepted underwriting guidelines established by Fannie Mae or Freddie Mac. These loans must be approved through an automated underwriting system such as Desktop Underwriter or Loan Prospector with no expanded approvals. Such privately insured mortgage loans may have LTV ratios up to and including 97% of the lesser of the purchase price or the appraised value. Loans with a 78% LTV or lower do not require mortgage insurance. A detailed chart of these mortgage loan products and primary mortgage loan terms may be obtained from THDA's Internet site at <https://thda.org/homebuyers/homebuyers>.

For the past several years, THDA has closely monitored its loan portfolio for delinquency and foreclosures. This monitoring has included analysis based on loan type (Great Choice, Great Choice Plus, Homeownership for the Brave), insurer/guarantor (FHA, VA, RECD, private mortgage insurer), mortgage loan servicer, down-payment assistance, and other factors as deemed necessary.

As of June 30, 2018, the delinquency and foreclosure rates for its single-family loan portfolio are as follows:

Loan Status	Total Number of Loans Serviced	Number of Loans in Status	Principal Amount Outstanding	Percentage ¹
60 – 89 Days Past Due	24,287	513	\$ 43,223,463	2.11%
90+ Days Past Due	24,287	1,200	95,172,207	4.94%
In Foreclosure	24,287	187	13,686,607	0.77%

Economic Factors

In accordance with THDA's investment policy, THDA typically invests in short-term and long-term fixed-rate debt securities from federal agencies. As a benchmark, THDA uses the one-, three- and five-year Constant Maturity Treasury rates as established by the United States Treasury.

¹ Percentage is calculated by dividing the "Number of Loans in Status" by the "Total Number of Loans Serviced."

The continuation of relatively low interest rates from a historic perspective increases the likelihood of negative arbitrage, in which the interest rates on THDA's bond issues exceeds the current investment interest rates. THDA monitors prepayments and bond investment yields, and seeks to reduce negative arbitrage by calling bonds with the funds from prepayments.

Direct Loan Servicing

During FY 2017, THDA commenced the direct servicing of mortgage loans under the name of Volunteer Mortgage Loan Servicing ("VMLS"). On November 1, 2016, the servicing of approximately 1,800 THDA mortgage loans having an outstanding principal balance of \$91.5 million was transferred to VMLS from an existing THDA mortgage servicer. In FY 2018, THDA began directly servicing the flow-business of new mortgage loans.

Contacting THDA's Financial Management

This financial report is designed to provide THDA's stakeholders with a general overview of THDA's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report or need additional financial information, contact Trent Ridley, Chief Financial Officer, at (615) 815-2012 or via e-mail at TRidley@thda.org.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2018
(Expressed in Thousands)

ASSETS

Current assets:		
Cash and cash equivalents (Note 2)	\$	216,191
Investments (Note 2)		83,879
Receivables:		
Accounts		839
Interest		11,155
First mortgage loans		59,768
Due from federal government		<u>34,977</u>
Total current assets		<u>406,809</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (Note 2)		66,553
Investments (Note 2)		127,812
Investment interest receivable		790
Investments (Note 2)		48,595
First mortgage loans receivable		2,058,402
Second mortgage loans receivable		38,108
Allowance for uncollectable second mortgages		(14,031)
Unearned service release premiums		1,106
Advance to local government		3,135
Net pension asset (Note 5)		35
Capital assets:		
Furniture and equipment		5,108
Less accumulated depreciation		<u>(2,232)</u>
Total noncurrent assets		<u>2,333,381</u>
Total assets		<u>2,740,190</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refundings	441
Deferred outflows related to pensions (Note 5)	3,931
Deferred outflows related to OPEB (Note 9)	<u>237</u>
Total deferred outflows of resources	<u>4,609</u>

LIABILITIES

Current liabilities:	
Accounts payable	15,875
Accrued payroll and related liabilities	680
Compensated absences	736
Due to primary government	91
Interest payable	32,181
Escrow deposits	2,719
Prepayments on mortgage loans	1,205
Due to federal government	29,517
Bonds payable (Note 3)	<u>87,945</u>
Total current liabilities	<u>170,949</u>
Noncurrent liabilities:	
Bonds payable (Note 3)	2,040,767
Compensated absences	630
Net pension liability (Note 5)	7,659
Net OPEB liability (Note 9)	3,578
Escrow deposits	10,596
Arbitrage rebate payable	<u>365</u>
Total noncurrent liabilities	<u>2,063,595</u>
Total liabilities	<u>2,234,544</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions (Note 5)	228
Deferred inflows related to OPEB (Note 9)	<u>137</u>
Total deferred inflows of resources	<u>365</u>

NET POSITION

Net investment in capital assets	2,876
Restricted for single family bond programs (Note 4 and Note 7)	423,248
Restricted for grant programs (Note 4)	12,080
Restricted for Homebuyers Revolving Loan Program (Note 4)	3,153
Restricted for net pension asset (Note 5)	35
Unrestricted (Note 7)	<u>68,498</u>
Total net position	<u>\$ 509,890</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

OPERATING REVENUES

Mortgage interest income	\$ 90,105
Investment income:	
Interest	7,025
Net (decrease) in the fair value of investments	(4,287)
Federal grant administration fees	15,279
Fees and other income	5,203
Total operating revenues	<u>113,325</u>

OPERATING EXPENSES

Salaries and benefits	20,177
Contractual services	6,214
Materials and supplies	1,436
Rentals and insurance	12
Other administrative expenses	836
Other program expenses	5,572
Interest expense	58,239
Mortgage service fees	6,833
Issuance costs	3,812
Depreciation	476
Total operating expenses	<u>103,607</u>
Operating income	<u>9,718</u>

NONOPERATING REVENUES (EXPENSES)

Federal grants revenue	317,323
Other grants revenue	3
Federal grants expenses	(317,388)
Local grants expenses	(7,952)
Total nonoperating revenues (expenses)	<u>(8,014)</u>
Change in net position	<u>1,704</u>
Total net position, July 1	509,966
Cumulative effect of a change in accounting principle (Note 12)	(1,780)
Total net position, July 1, as restated	508,186
Total net position, June 30	<u>\$ 509,890</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers	\$ 373,400
Receipts from federal government	15,030
Receipts from other funds	2,740
Other miscellaneous receipts	5,203
Acquisition of mortgage loans	(463,417)
Payments to service mortgages	(7,939)
Payments to suppliers	(16,471)
Payments to federal government	(1,490)
Payments to other funds	(2,740)
Payments to or for employees	(20,844)
Net cash used by operating activities	(116,528)
Cash flows from non-capital financing activities:	
Operating grants received	314,000
Proceeds from sale of bonds	469,989
Operating grants paid	(319,857)
Call premium paid	(14)
Cost of issuance paid	(3,812)
Principal payments	(314,725)
Interest paid	(62,486)
Net cash provided by non-capital financing activities	83,095
Cash flows from capital and related financing activities:	
Purchases of capital assets	(1,542)
Net cash used by capital and related financing activities	(1,542)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	203,470
Purchases of investments	(262,517)
Investment interest received	7,151
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	693
Net cash used by investing activities	(51,203)
Net decrease in cash and cash equivalents	(86,178)
Cash and cash equivalents, July 1	368,922
Cash and cash equivalents, June 30	\$ 282,744

(continued)

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

Reconciliation of operating income to net cash used by operating activities:	
Operating income	\$ <u>9,718</u>
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	476
Changes in assets and liabilities:	
Decrease in accounts receivable	154
Decrease in mortgage interest receivable	341
(Increase) in pension asset	(2)
(Increase) in deferred pension outflows	(67)
Decrease in deferred OPEB outflows	4
(Increase) in mortgage loans receivable	(188,470)
(Increase) in due from federal government	(249)
Increase in accounts payable	4,883
(Decrease) in unearned service release premiums	(1,106)
Increase in accrued payroll / compensated absences	100
(Decrease) in due to primary government	(632)
(Decrease) in arbitrage rebate liability	(745)
Increase in pension liability	7
(Decrease) in OPEB liability	(104)
(Decrease) in deferred pension inflows	(286)
Increase in deferred OPEB inflows	137
Investment income included as operating revenue	(2,738)
Interest expense included as operating expense	58,239
Issuance cost included as operating expense	<u>3,812</u>
Total adjustments	<u>(126,246)</u>
Net cash used by operating activities	\$ <u><u>(116,528)</u></u>
Noncash investing, capital, and financing activities:	
(Decrease) in fair value of investments	\$ <u>(4,821)</u>
Total noncash investing, capital, and financing activities	\$ <u><u>(4,821)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Notes to the Financial Statements
June 30, 2018

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee Housing Development Agency (THDA) was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 et seq. The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and a Staff Assistant to the Governor serve as ex officio board members of the agency. The remaining members are appointed by the Governor, the Speaker of the State Senate, and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, or home building industries; the mortgage profession; local governments; or one of the three grand divisions of the state, and must be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and Title 24, *Code of Federal Regulations*, Part 964, Subpart E. *Tennessee Code Annotated* Section 13-23-101 et seq. was amended to revise the composition of the board of directors, effective July 1, 2013.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

THDA is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body and approves its operating budget. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Certain accounting policies and procedures are stipulated in the agency's Mortgage Finance Program, Single Family Program, Homeownership Program, Housing Finance Program, and General Residential Finance Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds

Notes to the Financial Statements (Continued)

and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. When both restricted and unrestricted resources are available for use, it is the agency's policy to use the restricted resources first. All significant interfund transactions have been eliminated.

Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds, Bond Reserve Funds, the Tax and Insurance Holding/Escrow account, Funds on deposit for, or on behalf of, borrower's related to Loan Servicing, Hardest Hit Fund cash, and Net Pension Assets (see note 4).

The bond resolutions require the agency to establish a Debt Service Reserve Fund or a Bond Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund or the Bond Reserve Fund to cover any deficiency.

The Tax and Insurance Holding/Escrow account is used to service mortgage accounts. These funds are tax and insurance escrows held on behalf of various mortgagors from payments collected on mortgages. The agency is obligated to expend these monies on escrowed items. The Payment Clearing and Disbursement accounts are also used to service mortgages.

Deferred Amount on Refundings and Bond Premiums and Discounts

Deferred Amounts on Refundings: The agency amortizes the deferred amount on refundings using the straight-line method.

Notes to the Financial Statements (Continued)

Bond Premiums and Discounts: Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.

Cash and Cash Equivalents

In addition to demand deposits and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies, obligations guaranteed by the U.S., public housing bonds secured by contracts with the U.S., direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee, obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation, interest bearing time or demand deposits, collateralized certificates of deposit in authorized state depositories, and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value, except for repurchase agreements, which are reported at cost.

Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

Mortgages

Mortgages are carried at their original amount less collected principal.

Loan Servicing

On November 1, 2016, THDA began servicing the mortgage loans previously serviced by an approved THDA Loan Servicer and in May of 2017 began servicing the loans originated from THDA's Originating Agents.

Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds.

Notes to the Financial Statements (Continued)

outstanding. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Allowance for Forgivable Second Mortgages

THDA has offered the Down Payment Assistance product for several years. Beginning in October 2014, this product changed to a 0% forgivable second mortgage loan, of which 100% of the original principal amount is repayable to THDA if the loan is repaid within ten years of the origination date. Beginning on the eleventh anniversary of the origination date, 20% of the original principal amount will be forgiven. The amount of forgiveness increases an additional 20% on the loan anniversary thereafter. On the 15th anniversary of the origination date, 100% of the original principal amount becomes forgiven. Because of the likelihood that some amount of the original principal amount will be forgiven in the course of time, an allowance account has been established for those loans that may enter the forgivable period. During fiscal year 2018, the agency determined that an amount of second mortgage down payment assistance loans are not expected to be recovered due to forgiveness or foreclosure. This amount was recorded as an allowance.

Beginning in April 2017 this product changed to 100% forgivable second mortgage loan for the 30-year term of the first mortgage. It is 100% repayable in the event the home is sold, refinanced or owners move out of the home. Because of the likelihood that the majority of second mortgage loans will be repaid in the course of the 30-year term, the allowance account established for the second mortgage loans beginning October 2014 will not be used for any second mortgages made after March 2017.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

Note 2. Deposits and Investments

Deposits

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

Notes to the Financial Statements (Continued)

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer, except as noted below. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2018, the bank balance was \$ 32,468,510. This amount includes \$2,840,941; which is held in a T&I Escrow account to pay taxes, insurance and mortgage insurance premiums on the mortgagor's behalf. All bank balances at June 30, 2018, were insured, except the Bank of New York Mellon (BNYM) accounts. U.S. Department of the Treasury requires the funds for the Hardest Hit Fund program to be deposited in the BNYM accounts. THDA has no obligation to ensure that the funds in the accounts are collateralized should the amount of money in the account be in excess of the FDIC insurance coverage of \$250,000. THDA will not be responsible for a loss of the funds due to the bank's failure and the lack of adequate collateral. Of the bank balance at June 30, 2018, \$28,695,048 was in the BNYM. Of this amount, \$28,445,048 exceeded the FDIC insurance coverage. The agency has deposits in the State Pooled Investment Fund administered by the State Treasurer. The fund's investments are measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the State of Tennessee Treasurer's Report. That report is available on the state's website at www.treasury.state.tn.us.

Investments

As stated in the agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of assets. Investments are made as a prudent person would be expected to act in the management of his or her own affairs, with consideration of the safety of capital and the probability of income, and avoidance of speculative investments.

The agency's investment policy states that the agency's portfolios will be diversified in order to reduce the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest 100% of its portfolio in U.S. government securities. A minimum of 5% of the par value of total investments must mature within five years. No more than 50% of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk – Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Notes to the Financial Statements (Continued)

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

June 30, 2018		
Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$167,711,320	2.878
U.S. Treasury Coupon	12,969,783	2.704
U.S. Agency Discount	187,487,134	0.133
Total	\$368,168,237	1.474

Fair Value Measurements – THDA implemented GASB Statement 72, *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. THDA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. THDA has the following recurring fair value measurements as of June 30, 2018, (expressed in thousands):

June 30, 2018				
Assets by Fair Value Level	Total Assets at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Agency Coupon	\$167,711	\$ -	\$167,711	\$ -
U.S. Treasury Coupon	12,970	12,970	-	-
U.S. Agency Discount	187,487	-	187,487	-
Total debt securities	\$368,168	\$12,970	355,198	\$ -

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets as those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets as those securities. Level 3 valuations are derived from valuation techniques in which significant inputs are unobservable.

Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to the Investments section of Note 1 for further explanation of the agency's permitted investments. Credit quality ratings for the agency's investments as of June 30, 2018, are included in the schedules below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale.

Notes to the Financial Statements (Continued)

June 30, 2018					
Investment Type	Fair Value	U.S. Treasury ¹	AAA	AA+	Not Rated ²
U.S. Agency Coupon	\$167,711,320	\$ -	\$14,412,390	\$151,034,949	\$ 2,263,981
U.S. Treasury Coupon	12,969,783	12,969,783	-	-	-
U.S. Agency Discount	187,487,134	-	30,000,000	-	157,487,134
Total	\$368,168,237	\$12,969,783	\$44,412,390	\$151,034,949	\$159,751,115

In addition to these investments, the agency has \$136,991,170 invested in a money market fund. This fund is measured at amortized cost and has a Standard and Poor's rating of AAA.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than 5% of the agency's investments are invested in the following single issuers:

June 30, 2018		
Issuer	<u>Fair Value</u> <u>(Thousands)</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$217,505	59.08
Federal Home Loan Mortgage Corp.	\$81,487	22.13
Federal National Mortgage Assoc.	\$53,951	14.65

GASB 79 Disclosures – During fiscal year 2016, THDA implemented GASB Statement 79, *Certain External Investment Pools and Pool Participants*. The State of Tennessee, by law, requires that THDA participate in the State Pool Investment Fund (SPIF). SPIF values financial instruments at amortized cost.

Note 3. Liabilities

Bonds Issued and Outstanding

Homeownership Program Bonds				
Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2018 (Thousands)
2007-4	1/1/2009 – 7/1/2038	\$ 150,000	3.75 to 5.50	\$ -
2008-1	7/1/2009 – 1/1/2039	60,000	2.45 to 5.70	-
2009-1	1/1/2010 – 7/1/2029	50,000	0.75 to 5.00	13,255
2009-2	7/1/2010 – 7/1/2030	75,000	0.90 to 5.00	17,480
2010-1	1/1/2011 – 7/1/2025	120,700	0.35 to 4.50	33,435
2011-1	7/1/2012 – 7/1/2042	141,255	0.60 to 4.65	52,185

¹ This column includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

² This column includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard & Poor's or Moody's.

Notes to the Financial Statements (Continued)

2012-1	1/1/2013 – 7/1/2042	133,110	0.80 to 4.50	59,395
2012-2	7/1/2013 – 7/1/2043	97,625	0.50 to 4.00	45,710

Total Homeownership Program Bonds	\$827,690	\$ 221,460
Plus: Unamortized Bond Premiums		1,928
Net Homeownership Program Bonds		<u>\$223,388</u>

Housing Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2018 (Thousands)
2009-A	1/1/2011 – 1/1/2040	\$100,000	0.90 to 4.625	\$ 8,445
2010-A	1/1/2011 – 7/1/2041	160,000	0.60 to 5.00	11,965
2010-B	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	40,580
2011-A	7/1/2011 – 7/1/2041	100,000	0.45 to 4.50	12,275
2011-B	7/1/2012 – 7/1/2041	100,000	0.25 to 4.50	46,020
2011-C	7/1/2012 – 7/1/2041	100,000	0.40 to 4.30	42,015
2015-A	1/1/2016 – 7/1/2045	150,000	0.30 to 3.85	99,090

Total Housing Finance Program Bonds	\$810,000	\$260,390
Plus: Unamortized Bond Premiums		2,756
Net Housing Finance Program Bonds		<u>\$263,146</u>

Residential Finance Program Bonds

Series	Maturity Range	Issued Amount (Thousands)	Interest Rate (Percent)	Ending Balance 6/30/2018 (Thousands)
2013-1	1/1/2014 – 7/1/2043	\$ 215,905	0.40 to 4.00	\$ 98,530
2013-2	7/1/2014 – 7/1/2043	121,300	0.45 to 4.65	67,335
2014-1	1/1/2015 – 7/1/2039	150,000	0.32 to 4.00	89,825
2014-2	7/1/2015 – 7/1/2045	150,000	0.25 to 4.00	106,210
2015-1	1/1/2016 – 7/1/2045	150,000	0.50 to 4.05	117,920
2015-2	7/1/2016 – 1/1/2046	175,000	0.40 to 4.00	142,270
2016-1	1/1/2017 – 1/1/2047	125,000	0.625 to 3.50	109,900
2016-2	7/1/2017 – 1/1/2047	125,000	0.72 to 3.50	113,680
2016-3	7/1/2017 – 7/1/2031	62,000	1.00 to 3.50	44,045
2017-1	1/1/2018 – 7/1/2042	100,000	0.95 to 4.00	94,125
2017-2	1/1/2018 – 1/1/2042	175,000	0.90 to 4.00	164,465
2017-3	7/1/2018 – 1/1/2048	99,900	0.80 to 3.65	99,070
2017-4	7/1/2018 – 7/1/2048	99,900	0.95 to 4.00	99,900
2018-1	1/1/2019 – 1/1/2043	99,900	1.40 to 4.00	99,900
2018-2	1/1/2019 – 1/1/2049	160,000	1.75 to 4.00	160,000

Total Residential Finance Program Bonds	\$2,008,905	\$1,607,175
Plus: Unamortized Bond Premiums		35,037
Subtract: Unamortized Bond Discount		(34)
Net Residential Finance Program Bonds		<u>\$1,642,178</u>

Net Total All Bonds		<u>\$2,128,712</u>

Notes to the Financial Statements (Continued)

Housing Finance Program Bonds – The Housing Finance Program Bonds were established on December 23, 2009, to allow the agency to participate in the U.S. Department of Treasury New Issue Bond Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital. THDA could release funds from issue 2009-B up to six times before December 31, 2011.

The first release and conversion from 2009-B was on June 17, 2010, in the amount of \$85,290,000. The \$85,290,000 was blended with the market rate 2010-A bonds in the amount of \$74,710,000 for a total of \$160,000,000.

The second release and conversion from 2009-B was on November 10, 2010, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2010-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The third release and conversion from 2009-B was on April 14, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-A bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fourth release and conversion from 2009-B was on August 25, 2011, in the amount of \$60,000,000. The \$60,000,000 was blended with the market rate 2011-B bonds in the amount of \$40,000,000 for a total of \$100,000,000.

The fifth and final release and conversion from 2009-B was on November 3, 2011, in the amount of \$34,710,000. The \$34,710,000 was blended with the market rate 2011-C bonds in the amount of \$65,290,000 for a total of \$100,000,000.

Debt Service Requirements

Debt service requirements to maturity at June 30, 2018, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total Requirements
2019	\$ 45,460	\$ 67,559	\$ 113,019
2020	78,775	69,483	148,258
2021	85,160	67,472	152,632
2022	81,740	65,162	146,902
2023	78,190	62,888	141,078
2024 – 2028	390,215	277,914	668,129
2029 – 2033	393,280	212,378	605,658
2034 – 2038	410,000	140,523	550,523
2039 – 2043	359,090	66,736	425,826
2044 - 2048	157,285	15,398	172,683
2049	9,830	273	10,103
Total	<u>\$2,089,025</u>	<u>\$1,045,786</u>	<u>\$3,134,811</u>

Notes to the Financial Statements (Continued)

Redemption of Bonds and Notes

During the year ended June 30, 2018, bonds were retired at par before maturity in the Homeownership Program in the amount of \$62,025,000, in the Housing Finance Program in the amount of \$55,915,000, and in the Residential Finance Program in the amount of \$144,045,000. The respective carrying values of the bonds were \$62,672,676, \$56,543,851 and \$148,217,359. This resulted in revenue to the Homeownership Program of \$647,676, to the Housing Finance Program of \$628,851, and to the Residential Finance Program of \$4,172,359.

On June 27, 2017, the agency issued \$175,000,000 in Residential Finance Program Bonds, Issue 2017-2. On July 1, 2017, the agency used \$23,110,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$23,110,000 early redemption). The carrying amount of these bonds was \$23,217,325. The refunding increased the agency's debt service by \$7,948,844 over the next 20.50 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$848,929.

On September 28, 2017, the agency issued \$99,900,000 in Residential Finance Program Bonds, Issue 2017-3

On December 19, 2017, the agency issued \$99,900,000 in Residential Finance Program Bonds, Issue 2017-4. On January 1, 2018, the agency used \$11,460,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$11,460,000 early redemption). The carrying amount of these bonds was \$11,460,000. The refunding reduced the agency's debt service by \$4,972,339 over the next 16 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$2,364,905.

On March 29, 2018, the agency issued \$99,900,000 in Residential Finance Program Bonds, Issue 2018-1.

On June 12, 2018, the agency issued \$160,000,000 in Residential Finance Program Bonds, Issue 2018-2.

Notes to the Financial Statements (Continued)

Long-term Liability Activity

The following table is a summary of the long-term liability activity for the year ended June 30, 2018 (expressed in thousands).

Long Term Liability	Beginning Balance July 1, 2017	Additions	Reductions	Ending Balance June 30, 2018	Amounts Due Within One Year ³
Bonds Payable	\$1,944,050	\$459,700	(\$314,725)	\$2,089,025	\$87,945,
Plus: Unamortized Bond Premiums	36,406	10,317	(7,002)	39,721	-
Less: Unamortized Bond Discounts	-	(35)	1	(34)	-
Compensated Absences	1,314	69	(17)	1,366	736
Net Pension Liability	7,652	1,549	(1,542)	7,659	-
Total OPEB Liability	1,661	3,976	(2,059)	3,578	-
Escrow Deposits	5,391	78,563	(70,639)	13,315	2,719
Arbitrage Rebate Payable	1,110	-	(745)	365	-
Total	\$1,997,584	\$554,139	(\$396,728)	\$2,154,995	\$91,400

Note 4. Restricted Net Position

The amount shown on the statement of net position as Restricted for Single Family Bond Programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net position restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of this net position is restricted under legislation enacted in fiscal year 1986.

Note 5. Pension Plans

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with

³Amounts due within one year include management authorized bond refundings at June 30.

Notes to the Financial Statements (Continued)

pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.state.tn.us/tcrs.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	x	1.50%	x	Years of Service Credit	x	105%
Plus:						
Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	x	1.75%	x	Years of Service Credit	x	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. THDA employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer

Notes to the Financial Statements (Continued)

contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by THDA for the year ended June 30, 2018, to the Closed State and Higher Education Employee Pension Plan were \$1,891,406, which is 18.87 percent of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2018, THDA reported a liability of \$7,659,371 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. THDA's proportion of the net pension liability was based on a projection of THDA's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, THDA's proportion was 0.427994 percent. The proportion measured as of June 30, 2016, was 0.419391 percent.

Pension expense – For the year ended June 30, 2018, THDA recognized a pension expense of \$1,584,150. Allocated pension expense was \$1,589,179 before being reduced by \$5,029 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, THDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 607	\$224
Net difference between projected and actual earnings on pension plan investments	28	-
Change in proportionate share of net asset or liability	20	-
Changes in assumptions	1,305	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2017	1,891	-
Total	\$3,851	\$224

Notes to the Financial Statements (Continued)

Deferred outflows of resources, resulting from THDA's employer contributions of \$1,891,406 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2019	205,395
2020	1,269,075
2021	688,928
2022	(428,854)
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected six years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.5 percent decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return

Notes to the Financial Statements (Continued)

was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%.

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability to changes in the discount rate – The following presents THDA's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what THDA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency's proportionate share of the net pension liability	\$15,780,009	\$7,659,371	\$831,851

Notes to the Financial Statements (Continued)

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2018, THDA reported a payable of \$78,546 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2018.

State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description – State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under *Tennessee Code Annotated* Title 8, Chapters 34-37.

The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.state.tn.us/tcrs.

Benefits provided – *Tennessee Code Annotated* Title 8, Chapters 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member’s age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member’s highest five consecutive year average compensation by 1.0 percent multiplied by member’s years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which the member’s age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the

Notes to the Financial Statements (Continued)

previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. The Tennessee Housing Development Agency makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by Tennessee Housing Development Agency for the year ended June 30, 2018, to the State and Higher Education Employee Retirement Plan were \$56,893, which is 1.29 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2018, THDA reported an asset of \$35,422 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. THDA's proportion of the net pension asset was based on a projection of THDA's contributions during the year ended June 30, 2017, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2017, measurement date, THDA's proportion was 0.170803 percent. The proportion measured as of June 30, 2016, was 0.391715 percent.

Pension expense – For the year ended June 30, 2018, THDA recognized a pension expense of \$16,527. Allocated pension expense was \$14,375 before being increased by \$2,152 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2018, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

Notes to the Financial Statements (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1	\$1
Net difference between projected and actual earnings on pension plan investments	-	3
Changes in proportion of share of net asset or liability	19	-
Changes in assumptions	3	-
Tennessee Housing Development Agency contributions subsequent to the measurement date of June 30, 2017	57	-
Total	\$80	\$4

Deferred outflows of resources, resulting from THDA's employer contributions of \$56,593 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2019	2,058
2020	2,058
2021	1,989
2022	1,621
2023	2,388
Thereafter	9,677

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.75% to 3.45% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with generational mortality improvement.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The

Notes to the Financial Statements (Continued)

demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions – In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.5 percent to 2.25 percent; and decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate – The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-

Notes to the Financial Statements (Continued)

term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension asset to changes in the discount rate – The following presents THDA's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what THDA's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee Housing Development Agency's proportionate share of the net pension asset	\$(4,430)	\$(35,422)	\$(58,537)

Payable to the Pension Plan

At June 30, 2018, THDA reported a payable of \$2,632 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

Total Defined Benefit Pension Expense

The total pension expense for the year ended June 30, 2018 for both defined benefit pension plans was \$1,600,678.

Note 6. Deferred Compensation Plans

The THDA, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to Internal Revenue Code, Section 457, and the other pursuant to *Internal Revenue Code* (IRC), Section 401(k). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The THDA provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Notes to the Financial Statements (Continued)

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The THDA recognized a pension expense of \$338,108 for employer contributions.

The THDA recognized a pension payable of \$15,339 for employer contributions

Note 7. Provisions for Mortgage Loan Losses

Most mortgage loans are insured by the Federal Housing Administration, an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's board of directors has established a loan loss reserve of \$750,000 as a provision for potential loan losses arising from participation in the Rural Economic and Community Development Loan Guarantee Program. An additional \$232,000 was established as a loan loss reserve against potential losses on loans not specifically covered by one of the above programs, and \$500,000 was established as a loan loss reserve for self-insurance of second mortgages.

Since the amount of net position restricted for single-family bond programs exceeds the amounts necessary for these loan loss reserves, it is not necessary to designate unrestricted net position for this purpose.

Note 8. Insurance-Related Activities

Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property; crime and fidelity coverage on the state's officials and employees; and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there

Notes to the Financial Statements (Continued)

is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2018, is presented in the *Tennessee Comprehensive Annual Financial Report (CAFR)*. The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2018, the Risk Management Fund held \$189 million in cash designated for payment of claims.

Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 9. Other-Postemployment Benefits OPEB

Closed State Employee Group OPEB Plan

General information about the OPEB plan

Plan description - Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015 and choose coverage, are provided with pre-65 retiree health insurance benefits through the closed State Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be single-employer defined benefit plan that is used to provide postemployment benefits other than pensions

Notes to the Financial Statements (Continued)

(OPEB). This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The employers participating in this plan includes the State of Tennessee (primary government), the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee and the institutions that make up the State University and Community College System.

Benefits provided - The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65 are enrolled in this plan. All members have the option of choosing between the partnership promise, no partnership promise, standard preferred provider organization (PPO) plan or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits, as active employees, at a blended premium rate that considers the cost of active employees. This creates an implicit subsidy for the retirees. The retirees cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. No subsidy is provided to retirees in the health savings CDHP plan. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Annually, an insurance committee, created in accordance with Title 8, Chapter 27, Part 201, *Tennessee Code Annotated*, establishes the required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the EGOP pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates.

Total OPEB Liability

Proportionate share - The Tennessee Housing Development Agency's proportionate share of the collective total OPEB liability, related to the EGOP, was \$3.6 million. At the June 30, 2017, measurement date, the Tennessee Housing Development Agency's proportion of the collective total OPEB liability was 0.2664798%, representing the first-time presentation of the proportion. Tennessee Housing Development Agency's proportion of the collective total OPEB liability was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017 and measurement date of June 30, 2017.

Notes to the Financial Statements (Continued)

Actuarial assumptions - The collective total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	7.5% for 2018, decreasing annually to an ultimate rate of 3.83% for 2050 and later years.
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017 pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate - The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal General Obligation (GO) AA index.

Changes in assumptions - The discount rate was changed from 2.92% as of the beginning of the measurement period to 3.56% as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate - The following presents Tennessee Housing Development Agency proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56%) or 1-percentage-point higher (4.56%) than the current discount rate (expressed in thousands).

Notes to the Financial Statements (Continued)

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Proportionate share of the collective total OPEB liability	\$ 3,826	\$ 3,578	\$ 3,345

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the healthcare cost trend rate - The following presents Tennessee Housing Development Agency proportionate share of the collective total OPEB liability of the EGOP, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (6.50% decreasing to 2.83%) or 1-percentage-point higher (8.50% decreasing to 4.83%) than the current healthcare cost trend rate.

	1% Decrease (6.50% decreasing to 2.83%)	Healthcare Cost Trend Rates (7.50% decreasing to 3.83%)	1% Increase (8.50% decreasing to 4.83%)
Proportionate share of the collective total OPEB liability	\$ 3,221	\$ 3,578	\$ 3,996

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense - For the fiscal year ended June, 30, 2018, the Tennessee Housing Development Agency recognized OPEB expense of \$274 thousand.

Deferred outflows of resources and deferred inflows of resources - For the fiscal year ended June, 30, 2018, Tennessee Housing Development Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources (expressed in thousands):

	Deferred Outflows of resources	Deferred Inflows of resources
Differences between actual and expected experience	\$ -	\$ -
Changes of assumptions	-	137
Changes in proportion and differences between benefits paid and proportionate share of benefits paid.	-	-
Payments subsequent to the measurement date	237	
Total	<u>\$ 237</u>	<u>\$ 137</u>

Notes to the Financial Statements (Continued)

Deferred outflows of resources, resulting from the Tennessee Housing Development Agency's employer payments of \$237 thousand subsequent to the measurement date, will be recognized as a decrease in total OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (expressed in thousands):

For the year ended June 30:

2019	\$ (20)
2020	(20)
2021	(20)
2022	(20)
2023	(20)
Thereafter	(39)

In the tables above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

Closed Tennessee OPEB Plan

General information about the OPEB plan

Plan description – Employees of the Tennessee Housing Development Agency, who were hired prior to July 1, 2015 and choose coverage, are provided with post-65 retiree health insurance benefits through the Closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The State of Tennessee (primary government) as well as the Tennessee Student Assistance Corporations, the Tennessee Housing Development Agency, the University of Tennessee and the other institutions that make up the State University and Community College System also participates in this plan. This plan also serves eligible post-65 retirees of employers who participate in the state administered Teacher Group Insurance and Local Government Insurance Plans.

Benefits provided - The TNP is offered to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Title 8, Chapter 27, Part 209, *Tennessee Code Annotated*, benefits are established and amended by cooperation of insurance committees created by Title 8, Chapter 27, Parts 201, 301, and 701. *Tennessee Code Annotated*. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare eligible and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost, however, participating

Notes to the Financial Statements (Continued)

employers determine their own policy in this regard. The primary government contributes to the premiums of component unit retirees based on years of service. Therefore, retirees with 30 years of service receive \$50 per month; 20 but less than 30 years, \$37.50; and 15 but less than 20 years, \$25. Tennessee Housing Development Agency does not provide any subsidies for retirees in the TNP. The primary government paid \$7,976 thousand for OPEB as the benefits came due during the reporting period. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

In accordance with Title 8, Chapter 27, Parts 209, *Tennessee Code Annotated*, the state insurance committees established by Title 8, Chapter 27, Parts 201, 301, and 701 determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants.

Total OPEB Liability and OPEB Expense

Proportionate share – The primary government is entirely responsible for the TN OPEB liability associated with the Tennessee Housing Development Agency’s employees. The primary government’s proportionate share of the total OPEB liability associated with the Tennessee Housing Development Agency was \$339 thousand. At the June 30, 2017, measurement date, the proportion of the collective total OPEB liability associated with the Tennessee Housing Development Agency was 0.1909649%, representing the first-time presentation of this proportion. The proportion of the collective total OPEB associated with the Tennessee Development Housing Agency was based on a projection of the long-term share of contributions to the OPEB plan relative to the projected share of contributions of all participating employers, actuarially determined. The collective total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2017 and a measurement date of June 30, 2017.

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation, averaging 4%
Healthcare cost trend rates	The premium subsidies provided to retirees in the Closed Tennessee OPEB Plan are assumed to remain unchanged for the entire projection; therefore trend rates are not applicable.

Notes to the Financial Statements (Continued)

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017 pension actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2 percent load for males and a -3 percent load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10 percent load.

Discount rate – The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20 Year Municipal GO (General Obligation) AA index.

Changes in assumptions – The discount rate was changed from 2.92 percent as of the beginning of the measurement period to 3.56 percent as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the proportionate share of the collective total OPEB liability to changes in the discount rate – The following presents the primary governments proportionate share of the Tennessee Housing Development Agency's related collective total OPEB liability, as well as what the proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate. The Tennessee Housing Development Agency does not report a proportionate share of the OPEB liability for the employees in the TNP.

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Primary government's share of the collective total OPEB liability	\$ 383	\$ 339	\$ 300

OPEB expense – For the fiscal year ended June 30, 2018, the primary government recognized OPEB expense of \$15 thousand for employees of the Tennessee Housing Development Agency participating in the TNP.

Total OPEB Expense – The total OPEB expense for the year ended June 30, 2018 was \$289 thousand, which consisted of OPEB expense of \$274 thousand for the EGOP and \$15 thousand paid by the Tennessee Housing Development Agency for the TNP.

Notes to the Financial Statements (Continued)

Note 10. On-Behalf Payments

During the year ended June 30, 2018, the State of Tennessee made payments of \$7,976 on behalf of THDA for retirees participating in the Closed Tennessee OPEB Plan. The Closed Tennessee OPEB Plan is a postemployment benefit healthcare plan and is discussed further in Note 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 11. Payments to Primary Government

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies, and organizations in state government, to provide funds to the State General Fund to balance the state budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

Note 12. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2018, Tennessee Housing Development Agency implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. GASB Statement 75 establishes standards for the measurement, recognition, and display of the OPEB liability and related expenses, deferred inflows, deferred outflows, note disclosure and required supplementary information. The implementation of GASB 75 resulted in a cumulative adjustment to the beginning net position of \$(1,780,287). This cumulative adjustment does not include related deferred inflows and deferred outflows of resources.

Note 13. Subsequent Events

On July 1, 2018, the agency used \$13,075,000 of Residential Finance Program Bonds, Issue 2018-2, to refund bonds previously issued in the Homeownership Program (this amount consists of \$13,075,000 early redemption). The carrying amount of these bonds was \$13,075,000. The refunding reduced the agency's debt service by \$3,199,665 over the next 11 years, and the agency

Notes to the Financial Statements (Continued)

realized an economic gain (the difference between the present values of the old and new debt service payments) of \$1,636,564.

On July 27, 2018, THDA requested to withdraw approximately \$23,376,000 of excess funds from the Homeownership Program Bond Resolution to fund the acquisition of servicing rights from U.S. Bank. On July 30, 2018, THDA wired \$15,585,487 to U.S. Bank as a one-time servicing release and transfer fee payment. On August 6, 2018, THDA transferred \$7,902,932 to Volunteer Mortgage Loan Servicing (VMLS) to fund the VMLS Escrow Account for escrow advances.

Residential Finance Program Bonds, Issue 2018-3, were sold on September 6, 2018. The bond maturities are as follows:

	Maturity Range	Issued Amount	Interest Rate (Percent)
Series			
2018-3	7/1/2019 – 7/1/2049	\$149,900,000	1.500 to 4.250

Residential Finance Program Bonds, Issue 2018-4, were authorized by the board of directors on September 25, 2018, not to exceed \$225,000,000. The sale of the bonds will occur no later than December 31, 2018.

Residential Finance Program Bonds, Issue 2019-1, were authorized by the board of directors on November 13, 2018, not to exceed \$175,000,000. The sale of the bonds will occur no later than June 30, 2019.

Residential Finance Program Bonds, Issue 2018-4, were sold on November 15, 2018. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2018-4	7/1/2019 – 7/1/2049	\$225,000,000	1.875 to 4.500

Note 14. Events (Unaudited) Subsequent to the Date of the Independent Auditor's Report

Residential Finance Program Bonds, Issue 2019-1, were sold on March 21, 2019. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (Percent)
2019-1	1/1/2020 – 1/1/2050	\$175,000,000	1.600 to 4.250

Residential Finance Program Bonds, Issue 2019-2, were authorized by the board of directors on March 26, 2019, not to exceed \$200,000,000. The sale of the bonds will occur no later than July 31, 2019.

Residential Finance Program Bonds, Issue 2019-2, were sold on June 27, 2019. The bond maturities are as follows:

Notes to the Financial Statements (Continued)

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2019-2	1/1/2020 – 1/1/2048	\$200,000,000	1.400 to 4.000

Residential Finance Program Bonds, Issue 2019-3, were authorized by the board of directors on July 23, 2019, not to exceed \$150,000,000. The sale of the bonds will occur no later than December 31, 2019.

Residential Finance Program Bonds, Issue 2019-4, were authorized by the board of directors on September 24, 2019, not to exceed \$200,000,000. The sale of the bonds will occur no later than December 31, 2019.

Residential Finance Program Bonds, Issue 2019-3, were sold on September 30, 2019. The bond maturities are as follows:

Series	Maturity Range	Issued Amount	Interest Rate (<i>Percent</i>)
2019-3	7/1/2020 – 1/1/2050	\$150,000,000	1.100 to 3.750

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Asset	THDA's Proportionate Share of the Net Pension Asset	THDA's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentag e of the Total Pension Liability
2018	0.170803%	\$35	\$3,068	1.15%	131.51%
2017	0.391715%	\$33	\$1,661	1.99%	130.56%
2016	0.457171%	\$13	\$498	2.60%	142.55%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

(Expressed in Thousands)

	THDA's Proportion of the Net Pension Liability	THDA's Proportionate Share of the Net Pension Liability	THDA's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.427994%	\$7,659	\$10,268	74.60%	88.88%
2017	0.419391%	7,652	10,240	74.73%	87.96%
2016	0.421046%	5,429	10,994	49.38%	91.26%
2015	0.429581%	2,964	11,601	25.55%	95.11%

*To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
State and Higher Education Employee Retirement Plan Within TCRS

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2018	\$57	\$57	\$-	\$4,410	1.29%
2017	35	35		3,068	1.14%
2016	47	47	-	1,661	2.81%
2015	19	19	-	498	3.82%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Tennessee Housing Development Agency's Contributions
Closed State and Higher Education Employee Pension Plan With TCRS

(Expressed in Thousands)

	THDA's Contractually Determined Contributions	THDA's Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	THDA's Covered Payroll	Contributions as a Percentage of THDA's Covered Payroll
2018	\$1,891	\$1,891	\$-	\$ 10,024	18.87%
2017	1,542	1,542	-	10,268	15.02%
2016	1,539	1,539	-	10,240	15.03%
2015	1,652	1,652	-	10,994	15.03%
2014	1,744	1,744	-	11,601	15.03%
2013	1,693	1,693	-	11,264	15.03%
2012	1,632	1,632	-	10,946	14.91%
2011	1,586	1,586	-	10,637	14.91%
2010	1,295	1,295	-	9,946	13.02%
2009	1,201	1,201	-	9,224	13.02%

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of Collective Total OPEB Liability
Closed State Employee Group OPEB Plan

(Expressed in Thousands)

EGOP

	<u>2018</u>
Employer proportion of the collective total OPEB liability	0.2664798%
Employer proportionate share of the collective total OPEB liability	\$ 3,578
Covered-employee payroll	\$ 9,720
Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	36.81%

Notes to Schedule

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
Required Supplementary Information
Schedule of Proportionate Share of Collective Total OPEB Liability
Closed Tennessee OPEB Plan

(Expressed in Thousands)

TNP	2018
Employer proportion of the collective total OPEB liability	0.00%
Employer proportionate share of the collective total OPEB liability	\$ -
Primary government proportionate share of the collective total OPEB liability	<u>\$ 339</u>
Collective total OPEB liability	<u>\$ 339</u>
 Covered-employee payroll	 \$ 10,005
 Employer proportionate share of the collective total OPEB liability as a percentage of covered-employee payroll	 0.00%

Notes to Schedule

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET POSITION
JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 4,148	\$ 13,031	\$ 28,457	\$ 19,785	\$ 150,770	\$ 216,191
Investments	-	735	7,145	8,215	67,784	83,879
Receivables:						
Accounts	-	294	532	-	13	839
Interest	-	19	1,656	1,967	7,513	11,155
First mortgage loans	155	2,185	12,897	6,964	37,567	59,768
Due from federal government	34,977	-	-	-	-	34,977
Due from other funds	-	-	-	-	3,167	3,167
Total current assets	39,280	16,264	50,687	36,931	266,814	409,976
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	31,714	-	33,942	363	534	66,553
Investments	-	-	58,514	20,351	48,947	127,812
Investment Interest receivable	-	-	548	69	173	790
Investments	-	1,744	-	-	46,851	48,595
First mortgage loans receivable	534	48,811	243,154	258,555	1,507,348	2,058,402
Second mortgage loans receivable	-	-	38,108	-	-	38,108
Allowance for uncollectable second mortgages	-	-	(14,031)	-	-	(14,031)
Unearned service release premiums	1,106	-	-	-	-	1,106
Advance to local government	3,135	-	-	-	-	3,135
Net pension asset	35	-	-	-	-	35
Capital assets:						
Furniture and equipment	5,108	-	-	-	-	5,108
Less accumulated depreciation	(2,232)	-	-	-	-	(2,232)
Total noncurrent assets	39,400	50,555	360,235	279,338	1,603,853	2,333,381
Total assets	78,680	66,819	410,922	316,269	1,870,667	2,743,357
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	-	-	441	441
Deferred outflows related to pensions	3,931	-	-	-	-	3,931
Deferred outflows related to OPEB	237	-	-	-	-	237
Total deferred outflows of resources	4,168	-	-	-	441	4,609
LIABILITIES						
Current liabilities:						
Accounts payable	15,757	13	6	30	69	15,875
Accrued payroll and related liabilities	680	-	-	-	-	680
Compensated absences	736	-	-	-	-	736
Due to primary government	91	-	-	-	-	91
Interest payable	-	-	4,289	4,433	23,459	32,181
Escrow deposits	2,719	-	-	-	-	2,719
Prepayments on mortgage loans	-	-	147	128	930	1,205
Due to federal government	29,517	-	-	-	-	29,517
Due to other funds	392	-	2,775	-	-	3,167
Bonds payable	-	-	28,545	11,450	47,950	87,945
Total current liabilities	49,892	13	35,762	16,041	72,408	174,116
Noncurrent liabilities:						
Bonds payable	-	-	194,843	251,696	1,594,228	2,040,767
Compensated absences	630	-	-	-	-	630
Net pension liability	7,659	-	-	-	-	7,659
Net OPEB liability	3,578	-	-	-	-	3,578
Escrow deposits	696	192	-	-	9,708	10,596
Arbitrage rebate payable	-	-	365	-	-	365
Total noncurrent liabilities	12,563	192	195,208	251,696	1,603,936	2,063,595
Total liabilities	62,455	205	230,970	267,737	1,676,344	2,237,711
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	228	-	-	-	-	228
Deferred inflows related to OPEB	137	-	-	-	-	137
Total deferred inflows of resources	365	-	-	-	-	365
NET POSITION						
Net investment in capital assets	2,876	-	-	-	-	2,876
Restricted for single family bond programs	-	-	179,952	48,532	194,764	423,248
Restricted for grant programs	-	12,080	-	-	-	12,080
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for net pension asset	35	-	-	-	-	35
Unrestricted	13,964	54,534	-	-	-	68,498
Total net position	\$ 20,028	\$ 66,614	\$ 179,952	\$ 48,532	\$ 194,764	\$ 509,890

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
OPERATING REVENUES						
Mortgage interest income	\$ 10	\$ -	\$ 14,521	\$ 13,277	\$ 62,297	\$ 90,105
Investment income:						
Interest	220	157	2,711	785	3,152	7,025
Net increase (decrease) in the fair value of investments	-	6	(2,096)	(461)	(1,736)	(4,287)
Federal grant administration fees	15,279	-	-	-	-	15,279
Fees and other income	4,478	1	-	-	724	5,203
Total operating revenues	19,987	164	15,136	13,601	64,437	113,325
OPERATING EXPENSES						
Salaries and benefits	20,177	-	-	-	-	20,177
Contractual services	6,079	-	-	-	135	6,214
Materials and supplies	1,436	-	-	-	-	1,436
Rentals and insurance	12	-	-	-	-	12
Other administrative expenses	836	-	-	-	-	836
Other program expenses	598	7	3,594	254	1,119	5,572
Interest expense	-	19	9,127	8,951	40,142	58,239
Mortgage service fees	-	137	948	1,000	4,748	6,833
Issuance costs	-	-	-	-	3,812	3,812
Depreciation	476	-	-	-	-	476
Total operating expenses	29,614	163	13,669	10,205	49,956	103,607
Operating income (loss)	(9,627)	1	1,467	3,396	14,481	9,718
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	317,323	-	-	-	-	317,323
Other grant revenue	-	3	-	-	-	3
Federal grants expenses	(317,388)	-	-	-	-	(317,388)
Local grants expenses	(7,952)	-	-	-	-	(7,952)
Total nonoperating revenues (expenses)	(8,017)	3	-	-	-	(8,014)
Income (loss) before transfers	(17,644)	4	1,467	3,396	14,481	1,704
Transfers (to) other funds	-	(6,531)	(10,576)	(7,910)	-	(25,017)
Transfers from other funds	20,764	-	-	-	4,253	25,017
Change in net position	3,120	(6,527)	(9,109)	(4,514)	18,734	1,704
Total net position, July 1	18,688	73,141	189,061	53,046	176,030	509,966
Cumulative effect of a change in accounting principle	(1,780)	-	-	-	-	(1,780)
Total net position, July 1, as restated	16,908	73,141	189,061	53,046	176,030	508,186
Total net position, June 30	\$ 20,028	\$ 66,614	\$ 179,952	\$ 48,532	\$ 194,764	\$ 509,890

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)**

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Totals
Cash flows from operating activities:						
Receipts from customers	\$ 1,270	\$ 3,912	\$ 90,115	\$ 68,270	\$ 209,833	\$ 373,400
Receipts from federal government	15,030	-	-	-	-	15,030
Receipts from other funds	2,255	-	485	-	-	2,740
Other miscellaneous receipts	4,478	1	-	-	724	5,203
Acquisition of mortgage loans	-	(4,859)	(10,254)	-	(448,304)	(463,417)
Payments to service mortgages	(1,106)	(137)	(948)	(1,000)	(4,748)	(7,939)
Payments to suppliers	(10,169)	-	(4,064)	(1,003)	(1,235)	(16,471)
Payments to federal government	-	-	(1,490)	-	-	(1,490)
Payments to other funds	-	-	-	-	(2,740)	(2,740)
Payments to or for employees	(20,844)	-	-	-	-	(20,844)
Net cash provided (used) by operating activities	(9,086)	(1,083)	73,844	66,267	(246,470)	(116,528)
Cash flows from non-capital financing activities:						
Operating grants received	313,997	3	-	-	-	314,000
Transfers in (out)	20,764	(6,531)	10,761	(7,910)	(17,084)	-
Proceeds from sale of bonds	-	-	-	-	469,989	469,989
Operating grants paid	(319,857)	-	-	-	-	(319,857)
Call premium paid	-	-	(14)	-	-	(14)
Cost of issuance paid	-	-	-	-	(3,812)	(3,812)
Principal payments	-	-	(101,875)	(57,825)	(155,025)	(314,725)
Interest paid	-	(19)	(11,955)	(10,696)	(39,816)	(62,486)
Net cash provided (used) by non-capital financing activities	14,904	(6,547)	(103,083)	(76,431)	254,252	83,095
Cash flows from capital and related financing activities:						
Purchases of capital assets	(1,542)	-	-	-	-	(1,542)
Net cash used by capital and related financing activities	(1,542)	-	-	-	-	(1,542)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	15,587	49,231	21,430	117,222	203,470
Purchases of investments	-	(15,709)	(50,725)	(32,262)	(163,821)	(262,517)
Investment interest received	220	157	2,933	765	3,076	7,151
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	34	143	79	437	693
Net cash provided (used) by investing activities	220	69	1,582	(9,988)	(43,086)	(51,203)
Net increase (decrease) in cash and cash equivalents	4,496	(7,561)	(27,657)	(20,152)	(35,304)	(86,178)
Cash and cash equivalents, July 1	31,366	20,592	90,056	40,300	186,608	368,922
Cash and cash equivalents, June 30	\$ 35,862	\$ 13,031	\$ 62,399	\$ 20,148	\$ 151,304	\$ 282,744

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS (cont.)
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	General Residential Finance Program Bonds	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (9,627)	\$ 1	\$ 1,467	\$ 3,396	\$ 14,481	\$ 9,718
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	476	-	-	-	-	476
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	-	(83)	(532)	-	769	154
(Increase) decrease in mortgage interest receivable	-	-	905	591	(1,155)	341
(Increase) in pension asset	(2)	-	-	-	-	(2)
(Increase) in deferred pension outflows	(67)	-	-	-	-	(67)
Decrease in deferred OPEB outflows	4	-	-	-	-	4
(Increase) decrease in mortgage loans receivable	-	(940)	65,055	54,449	(307,034)	(188,470)
(Increase) in due from federal government	(249)	-	-	-	-	(249)
Decrease in interfund receivables	2,255	-	485	-	-	2,740
(Decrease) in interfund payables	-	-	-	-	(2,740)	(2,740)
Increase (decrease) in accounts payable	228	83	(1,303)	(796)	6,671	4,883
(Decrease) in unearned service release premiums	(1,106)					(1,106)
Increase in accrued payroll / compensated absences	100	-	-	-	-	100
(Decrease) in due to primary government	(632)	-	-	-	-	(632)
(Decrease) in arbitrage rebate liability	-	-	(745)	-	-	(745)
Increase in pension liability	7	-	-	-	-	7
(Decrease) in OPEB liability	(104)					(104)
(Decrease) in deferred pension inflows	(286)	-	-	-	-	(286)
Increase in deferred OPEB inflows	137	-	-	-	-	137
Investment income included as operating revenue	(220)	(163)	(615)	(324)	(1,416)	(2,738)
Interest expense included as operating expense	-	19	9,127	8,951	40,142	58,239
Issuance cost included as operating expense	-	-	-	-	3,812	3,812
Total adjustments	541	(1,084)	72,377	62,871	(260,951)	(126,246)
Net cash provided (used) by operating activities	\$ (9,086)	\$ (1,083)	\$ 73,844	\$ 66,267	\$ (246,470)	\$ (116,528)
Noncash investing, capital, and financing activities:						
(Decrease) in fair value of investments	\$ -	\$ (43)	\$ (1,633)	\$ (560)	\$ (2,585)	\$ (4,821)
Total noncash investing, capital, and financing activities	\$ -	\$ (43)	\$ (1,633)	\$ (560)	\$ (2,585)	\$ (4,821)

***UNAUDITED FINANCIAL
INFORMATION***

June 30, 2019

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF NET POSITION
(Expressed in Thousands)
(Unaudited)

June 30, 2019

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 6/30/2019
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 23,217	\$ 16,289	\$ 19,818	\$ 19,692	\$ 295,890	\$ 374,906
Investments	-	-	-	4,329	39,749	44,078
Receivables:						
Accounts	6,925	78	491	81	1,231	8,806
Interest	-	1	1,230	1,878	11,584	14,693
First mortgage loans	242	2,264	11,757	6,149	48,685	69,097
Due from federal government	39,207	-	-	-	-	39,207
Due from other funds	-	-	-	-	30,161	30,161
Total current assets	69,591	18,632	33,296	32,129	427,300	580,948
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	45,450	-	13,148	1,452	8,040	68,090
Investments	-	-	47,832	11,789	65,279	124,900
Investment interest receivable	-	-	490	32	242	764
Investments	-	1,788	299	20	31,310	33,417
First mortgage loans receivable	439	47,753	189,468	206,065	2,015,378	2,459,103
Second mortgage loans receivable	-	-	52,199	-	-	52,199
Allowance for uncollectable second mortgages	-	-	(19,349)	-	-	(19,349)
Unearned service release premiums	20,910	-	-	-	-	20,910
Advance to local government	3,143	-	-	-	-	3,143
Net pension asset	77	-	-	-	-	77
Capital assets:						
Furniture and equipment	6,916	-	-	-	-	6,916
Less accumulated depreciation	(3,026)	-	-	-	-	(3,026)
Total noncurrent assets	73,909	49,541	284,087	219,358	2,120,249	2,747,144
Total assets	143,500	68,173	317,383	251,487	2,547,549	3,328,092
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amount on refundings	-	-	-	-	323	323
Deferred outflows related to pensions	3,635	-	-	-	-	3,635
Deferred outflows related to OPEB	356	-	-	-	-	356
Total deferred outflows of resources	3,991	-	-	-	323	4,314
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 33,218	\$ 12	\$ 11	\$ 10	\$ 258	\$ 33,509
Accrued payroll and related liabilities	753	-	-	-	-	753
Compensated absences	741	-	-	-	-	741
Due to primary government	98	-	-	-	-	98
Interest payable	-	-	2,928	3,602	32,948	39,478
Escrow deposits	23,223	-	-	-	-	23,223
Prepayments on mortgage loans	-	-	84	87	1,006	1,177
Due to federal government	20,672	-	-	-	-	20,672
Due to other funds	29,030	-	1,131	-	-	30,161
Bonds payable	-	-	14,720	16,620	69,725	101,065
Total current liabilities	107,735	12	18,874	20,319	103,937	250,877
Noncurrent liabilities:						
Bonds payable	-	-	141,989	200,979	2,184,284	2,527,252
Compensated absences	759	-	-	-	-	759
Net pension liability	6,997	-	-	-	-	6,997
Total OPEB liability	3,351	-	-	-	-	3,351
Escrow deposits	4,654	223	-	-	11,088	15,965
Arbitrage rebate payable	-	-	379	-	-	379
Total noncurrent liabilities	15,761	223	142,368	200,979	2,195,372	2,554,703
Total liabilities	123,496	235	161,242	221,298	2,299,309	2,805,580
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	239	-	-	-	-	239
Deferred inflows related to OPEB	507	-	-	-	-	507
Total deferred inflows of resources	746	-	-	-	-	746
NET POSITION						
Net investment in capital assets	3,890	-	-	-	-	3,890
Restricted for single family bond programs	-	-	156,141	30,189	248,563	434,893
Restricted for grant programs	-	15,581	-	-	-	15,581
Restricted for Homebuyers Revolving Loan Program	3,153	-	-	-	-	3,153
Restricted for pension asset	77	-	-	-	-	77
Unrestricted	16,129	52,357	-	-	-	68,486
Total net position	\$ 23,249	\$ 67,938	\$ 156,141	\$ 30,189	\$ 248,563	\$ 526,080

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Expressed in Thousands)
(Unaudited)

For the Year Ended June 30, 2019

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 6/30/2019
OPERATING REVENUES						
Mortgage interest income	\$ -	\$ 15	\$ 10,559	\$ 11,362	\$ 85,013	\$ 106,949
Investment income:						
Interest	490	246	2,176	741	4,505	8,158
Net increase in the fair value of investments	-	103	903	720	4,486	6,212
Federal grant administration fees	15,262	-	-	-	-	15,262
Fees and other income	4,943	3	-	-	168	5,114
Total operating revenues	20,695	367	13,638	12,823	94,172	141,695
OPERATING EXPENSES						
Salaries and benefits	22,517	-	-	-	-	22,517
Contractual services	7,641	-	-	-	1	7,642
Materials and supplies	1,277	-	-	-	-	1,277
Rentals and insurance	15	-	-	-	-	15
Other administrative expenses	885	-	-	-	-	885
Other program expenses	2,673	388	6,017	218	1,653	10,949
Interest expense	-	-	6,179	7,284	56,057	69,520
Mortgage service fees	-	117	105	78	423	723
Issuance costs	-	-	-	-	5,583	5,583
Depreciation	794	-	-	-	-	794
Total operating expenses	35,802	505	12,301	7,580	63,717	119,905
Operating income (loss)	(15,107)	(138)	1,337	5,243	30,455	21,790
NONOPERATING REVENUES (EXPENSES)						
Federal grants revenue	342,404	-	-	-	-	342,404
Payment from primary government	665	-	-	-	-	665
Federal grants expenses	(341,638)	-	-	-	-	(341,638)
Local grants expenses	(7,031)	-	-	-	-	(7,031)
Total nonoperating revenues (expenses)	(5,600)	-	-	-	-	(5,600)
Income (loss) before transfers	(20,707)	(138)	1,337	5,243	30,455	16,190
Transfers (to) other funds	-	-	(25,148)	(23,586)	-	(48,734)
Transfers from other funds	23,928	1,462	-	-	23,344	48,734
Change in net position	3,221	1,324	(23,811)	(18,343)	53,799	16,190
Total net position, July 1	20,028	66,614	179,952	48,532	194,764	509,890
Total net position, End of period	\$ 23,249	\$ 67,938	\$ 156,141	\$ 30,189	\$ 248,563	\$ 526,080

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS
(Expressed in Thousands)
(Unaudited)

For the Year Ended June 30, 2019

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 6/30/2019
Cash flows from operating activities:						
Receipts from customers	\$ 25,454	\$ 4,590	\$ 58,170	\$ 48,042	\$ 243,621	\$ 379,877
Receipts from federal government	15,025	-	27	-	-	15,052
Receipts from other funds	28,638	-	-	-	-	28,638
Other miscellaneous receipts	4,943	3	-	-	168	5,114
Acquisition of mortgage loans	-	(3,332)	(18,001)	-	(646,577)	(667,910)
Payments of service release premiums	(21,498)	-	-	-	-	(21,498)
Payments to service mortgages	-	(117)	(105)	(78)	(423)	(723)
Payments to suppliers	-	(389)	(7,560)	(238)	(1,465)	(9,652)
Payments to other funds	-	-	(1,644)	-	(26,994)	(28,638)
Payments to or for employees	(23,163)	-	-	-	-	(23,163)
Net cash provided (used) by operating activities	29,399	755	30,887	47,726	(431,670)	(322,903)
Cash flows from non-capital financing activities:						
Operating grants received	330,231	-	-	-	-	330,231
Transfers in (out)	23,928	1,462	(6,773)	(6,993)	(11,624)	-
Proceeds from sale of bonds	-	-	-	-	770,641	770,641
Operating grants paid	(349,434)	-	-	-	-	(349,434)
Cost of issuance paid	-	-	-	-	(5,583)	(5,583)
Principal payments	-	-	(66,010)	(44,915)	(152,275)	(263,200)
Interest paid	-	-	(8,201)	(8,747)	(52,991)	(69,939)
Net cash provided (used) by non-capital financing activities	4,725	1,462	(80,984)	(60,655)	548,168	412,716
Cash flows from capital and related financing activities:						
Purchases of capital assets	(1,809)	-	-	-	-	(1,809)
Net cash used by capital and related financing activities	(1,809)	-	-	-	-	(1,809)
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	-	735	24,025	29,539	83,978	138,277
Purchases of investments	-	-	(5,770)	(16,520)	(53,525)	(75,815)
Investment interest received	490	246	2,233	777	4,398	8,144
Increase in fair value of investments subject to fair value reporting and classified as cash equivalents	-	60	176	129	1,277	1,642
Net cash provided by investing activities	490	1,041	20,664	13,925	36,128	72,248
Net increase (decrease) in cash and cash equivalents	32,805	3,258	(29,433)	996	152,626	160,252
Cash and cash equivalents, July 1	35,862	13,031	62,399	20,148	151,304	282,744
Cash and cash equivalents, End of period	\$ 68,667	\$ 16,289	\$ 32,966	\$ 21,144	\$ 303,930	\$ 442,996

TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)
(Unaudited)

For the Year Ended June 30, 2019

	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Housing Finance Program Bonds	Residential Finance Program Bonds	Total 6/30/2019
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (15,107)	\$ (138)	\$ 1,337	\$ 5,243	\$ 30,455	\$ 21,790
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	794	-	-	-	-	794
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(6,925)	216	41	(81)	(1,218)	(7,967)
(Increase) decrease in mortgage interest receivable	-	17	426	90	(4,034)	(3,501)
(Increase) in pension asset	(42)	-	-	-	-	(42)
Decrease in deferred pension outflows	296	-	-	-	-	296
(Increase) in deferred OPEB outflows	(119)	-	-	-	-	(119)
(Increase) decrease in mortgage loans receivable	-	979	27,671	36,712	(484,173)	(418,811)
(Increase) in due from federal government	(237)	-	-	-	-	(237)
(Increase) in unearned service release premiums	(19,804)	-	-	-	-	(19,804)
Decrease in interfund receivables	28,638	-	-	-	-	28,638
(Decrease) in interfund payables	-	-	(1,644)	-	(26,994)	(28,638)
Increase (decrease) in accounts payable	42,689	30	(58)	(61)	1,645	44,245
Increase in accrued payroll / compensated absences	207	-	-	-	-	207
Increase in due to primary government	7	-	-	-	-	7
Increase in arbitrage rebate payable	-	-	14	-	-	14
(Decrease) in pension liability	(662)	-	-	-	-	(662)
(Decrease) in OPEB liability	(227)	-	-	-	-	(227)
Increase in deferred pension inflows	11	-	-	-	-	11
Increase in deferred OPEB inflows	370	-	-	-	-	370
Investment income included as operating revenue	(490)	(349)	(3,079)	(1,461)	(8,991)	(14,370)
Interest expense included as operating expense	-	-	6,179	7,284	56,057	69,520
Issuance cost included as operating expense	-	-	-	-	5,583	5,583
Total adjustments	44,506	893	29,550	42,483	(462,125)	(344,693)
Net cash provided (used) by operating activities	\$ 29,399	\$ 755	\$ 30,887	\$ 47,726	\$ (431,670)	\$ (322,903)
Noncash investing, capital, and financing activities:						
Increase in fair value of investments	-	-	17	138	379	534
Total noncash investing, capital, and financing activities	\$ -	\$ -	\$ 17	\$ 138	\$ 379	\$ 534

SUMMARY OF MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**Introduction**

All first lien Program Loans made or purchased by THDA with proceeds of Bonds issued under the General Resolution are expected to be (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, or (b) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who, at the time of closing, have an acceptable equity interest in the property based on the lesser of appraised value or the sale price. However, under the General Resolution, some or all of these requirements may be modified by a Supplemental Resolution with respect to Program Loans financed with the proceeds of Bonds subsequently issued pursuant to such Supplemental Resolution.

Originating Agents are responsible for obtaining Veteran's Administration ("VA") or U.S. Department of Agriculture, Rural Development ("USDA/RD") guarantees, Federal Housing Administration ("FHA") insurance certificates or private mortgage insurance certificates as part of the process of originating and closing THDA Program Loans. Borrowers pay the costs associated with such insurance certificates or guarantees.

The following descriptions of certain mortgage insurance programs and loan guarantee programs are all only brief outlines and do not purport to summarize or describe all provisions of each respective program. For a more complete description of these programs, refer to the contract provisions embodied in FHA, USDA/RD (formerly FmHA) and VA regulations, respectively, and to the regulations, master insurance contracts and other such information from the private mortgage insurance providers.

FHA Insurance Programs

The National Housing Act of 1934, as amended, authorizes various FHA mortgage insurance programs, which differ primarily upon whether the property contains five or more dwelling units or less than five such units and whether the property is designed for occupancy by low and moderate income families.

The National Housing Act of 1934, as amended, imposes a minimum cash requirement for purchase money mortgages of 3.5% of the lesser of appraised value or sales price, resulting in a maximum loan to value percentage of 96.5%.

Under the FHA programs which insure THDA's Program Loans, insurance benefits generally are payable only upon foreclosure (or other acquisition of possession) and conveyance of the property to the United States Department of Housing and Urban Development ("HUD"). The FHA insurance proceeds available under these programs upon conveyance of the property to HUD is equal to 100% of the outstanding principal balance of the Program Loan, plus interest and certain additional costs and expenses.

Under some FHA insurance programs, HUD pays insurance claims in cash unless the mortgage lender specifically requests payment in debentures issued by HUD. Under other programs, HUD, at its option, may pay insurance claims in cash or in such debentures. Currently, HUD makes insurance payments on mortgages covering less than five dwelling units in cash when it has discretion to determine the form of insurance payment. HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debentures interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When FHA insurance benefits are paid after foreclosure (or other acquisition of possession) and conveyance, the amount paid is computed as of the date of default by the borrower, as defined in HUD regulations, and the mortgage lender generally is not compensated for mortgage interest accrued and unpaid prior to that date. When FHA insurance benefits are paid under such circumstances, the insurance payment made is generally equal to the unpaid principal amount of the Program Loan, adjusted to reimburse the mortgage lender for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgage lender after default, plus reimbursement not to exceed a specified percentage of the mortgage lender's foreclosure costs as determined by HUD based on certain criteria. The regulations under the FHA insurance programs which insure THDA's Program Loans provide that the insurance payment itself shall bear interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

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

To obtain title to and possession of the property upon foreclosure, the Trustee and the Servicer act under the power of sale provisions in the deed of trust, subject to constraints imposed by applicable state law and by HUD. HUD currently requires that, absent the consent of the borrower, at least three full monthly installments be due and unpaid under the deed of trust before the mortgage lender may initiate any action leading to foreclosure under the deed of trust. HUD also requires a face-to-face conference between the mortgage lender and the borrower in an effort to cure the delinquency without foreclosure. In any case, these requirements do not apply where the borrower has voluntarily abandoned the property, in which case, the mortgage lender may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

Veterans Administration Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse or certain qualified reservists) to obtain a Program Loan guaranty from the VA covering the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no loan limits, requires no downpayment from the purchaser and permits the guaranty of Program Loans of up to thirty years duration. The maximum guaranty that may be issued by the VA under this program is the lesser of the veteran's available entitlement or the statutory maximum guaranty based on date of origination, type of housing unit and loan amount. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage lender will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a property is greater than the original guaranty, as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

United States Department of Agriculture, Rural Development (formerly Farmers Home Administration)

Guaranteed Rural Housing Program

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. The guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by THDA.

Private Mortgage Insurance Programs

General

Program Loans are permitted under the General Resolution when insured under private mortgage insurance programs as described below.

Private mortgage insurance policies insure against certain losses sustained by reason of default in payments by borrowers. Under most policies, delinquencies must be reported to the insurer within two (2) months of default, and proceedings to recover title must, generally, be commenced within nine (9) months of default. It is standard practice for private mortgage insurers to require that the mortgage lender, prior to presenting a claim under the mortgage insurance policy, acquire and tender to the private mortgage insurer title to the property, free and clear of all liens and encumbrances, including any right of redemption by the borrower. When such a claim is presented, the private mortgage insurer will normally retain the option to pay the claim in full and take title to the property and arrange for its sale, or to pay the insured percentage of the claim and allow the insured mortgage lender to retain title to the property. The amount of loss payable generally includes the principal balance due under the mortgage, plus accumulated interest, real estate taxes and hazard insurance premiums which have been advanced, expenses incurred in the preservation of the insured property, and other expenses necessarily incurred in the recovery proceedings.

Notwithstanding the foregoing, THDA does not expect to use lendable proceeds of the Offered Bonds to purchase Program Loans insured by private mortgage insurance.

DESCRIPTION OF AGREEMENTS WITH ORIGINATING AGENTS**Working Agreements**

THDA has working agreements with each of its Originating Agents (the “Working Agreements”). Under the Working Agreements, THDA reviews and makes or purchases approved Program Loans which have been originated and processed by an Originating Agent.

Each Working Agreement also contains certain representations and warranties by the Originating Agent regarding the Program Loan applications submitted to THDA to the effect that the Originating Agent has no adverse information regarding the credit or reputation of the applicant nor adverse information concerning the real property to be mortgaged that would materially lessen THDA’s security or detract from the subsequent marketability of the Program Loan. Each Originating Agent further represents and warrants that it will receive and process for THDA all applications by applicants for Program Loans who qualify as lower and moderate income persons.

The Working Agreement requires that Program Loans meet all requirements contained in THDA’s rules and regulations and the O. A. Guide (as defined below). These requirements include, among other things:

- (1) a deed of trust securing the Program Loan in a form approved by THDA which creates a valid first lien or other approved lien on the property;
- (2) for FHA insured or VA or USDA/RD guaranteed Program Loans, all FHA, VA or USDA/RD rules, regulations and requirements must be met;
- (3) evidence of title satisfactory to THDA;
- (4) an original hazard insurance policy, delivered at closing, which covers the property subject to the Program Loan, names THDA as first mortgagee, and is in an amount not less than the greater of 90% of the insurable value of the improvements on the property or the full amount of the Program Loan; and
- (5) such other documents as are necessary to comply with the federal tax code.

Penalties may be imposed on Originating Agents for violating the Working Agreements. At the option of THDA, Originating Agents may also be required to purchase a Program Loan from THDA when there is a violation under the Working Agreement with respect to the Program Loan. THDA may terminate Working Agreements upon notice, with or without cause or, at its election, temporarily suspend Originating Agent’s privilege to originate Program Loans as a result of inadequate performance.

Guide for Originating Agents

THDA provides each Originating Agent with a Guide for Originating Agents (the “O.A. Guide”), which is amended from time to time by THDA to reflect changes in THDA policy, statutory requirements or federal tax code requirements. The O. A. Guide sets forth requirements and procedures for originating, processing and closing Program Loans. The Guide includes a procedural checklist to be followed by the Originating Agent and copies of all THDA forms required in originating, processing and closing Program Loans.

Servicing Agreements

THDA no longer has servicing agreements with outside entities. As of August 1, 2018, all servicing of THDA Program Loans is handled by Volunteer Mortgage Loan Servicing, a division of THDA. See Appendix G under the heading “Loan Servicing” for more information.

Special Programs

For certain special programs, THDA may elect to enter into joint agreements for originating and servicing Program Loans made under such special programs. Any such joint agreements are substantially similar to the Working Agreements and Servicing Agreements described hereinabove and in Appendix G.

2013 GENERAL RESOLUTION

This Appendix D includes the General Residential Finance Program Bond Resolution (the “2013 General Resolution”) adopted by the THDA Board of Directors on January 29, 2013, as amended and supplemented by the Bond Finance Committee of the THDA Board of Directors on April 18, 2013.

**TENNESSEE HOUSING DEVELOPMENT AGENCY
General Residential Finance Program Bond Resolution**

**Adopted January 29, 2013
as amended and supplemented
by the Bond Finance Committee of
THDA on April 18, 2013**

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General Residential Finance Program Bond Resolution

BE IT RESOLVED by the Board of Directors of THDA as follows:

ARTICLE I

SHORT TITLE, DEFINITIONS AND INTERPRETATION

Section 1.1. Short Title. This resolution may hereafter be cited by THDA and is hereinafter sometimes referred to as the “General Residential Finance Program Bond Resolution.”

Section 1.2. Definitions. In this Resolution, the following words and terms shall, unless the context otherwise requires, have the following meanings:

“*Account*” means one or more, as the case may be, of the Accounts established pursuant to this Resolution.

“*Accountant*” means the department of audit, division of state audit, in the office of the Comptroller of the Treasury of the State or an independent certified public accountant or firm of independent certified public accountants as may be selected in accordance with applicable laws and may be the accountant or firm of accountants who regularly audit the books and accounts of THDA.

“*Act*” means the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, Sections 13-23-01 et seq., as amended.

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

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

“*Authorized Officer*” means the Chairman and Executive Director of THDA and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of THDA then authorized to perform such act or discharge such duty.

“*Bond*” or “*Bonds*” means any Residential Finance Program Bond authenticated and delivered under this Resolution and issued under a Supplemental Resolution.

“*Bond Counsel's Opinion*” means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by THDA.

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

“*Bond Reserve Fund*” means the Bond Reserve Fund established pursuant to Section 5.1.

“*Bond Reserve Fund Requirement*” means, as of any date of calculation, the greater of (i) an amount equal to the aggregate of the respective amounts for each Series of Bonds, if any, established in the Supplemental Resolution authorizing such Series or (ii) an amount equal to 3% of the sum of (A) the then current balance of Program Loans (other than Program Loans underlying Program Securities) and (B) any amount on deposit in the Loan Fund which has not been designated to provide for the payment of Costs of Issuance, capitalized interest or the purchase of Program Securities.

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

“*Code*” means applicable provisions of the Internal Revenue Code of 1954, as amended, and the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Compounded Amount" means, as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by THDA in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to Section 2.6, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to Section 2.6. Any determination of Compounded Amount shall assume semi-annual compounding on each January 1 and July 1, straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to THDA and related to the authorization, sale and issuance of Bonds, including but not limited to discount to be paid to the underwriters upon the initial delivery of Bonds, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, initial premiums to obtain mortgage pool insurance, accrued interest in connection with the financing of Program Loans and any other cost, charge or fee in connection with the original issuance of Bonds.

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

"Event of Default" means any of the events specified in Section 10.1.

"Federal Mortgage Agency" means the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

"Fiduciary" means the Trustee and any Paying Agent, or any or all of them as may be appropriate.

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

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

"Fund" means one or more, as the case may be, of the special Funds created and established pursuant to this Resolution.

"Interest Payment Date" means any date upon which interest on the Bonds is due and payable in accordance with their terms.

"Internal Rate of Return" when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to Section 2.6 and compounded semi-annually, results in an amount, as of the Final Compounding Date, equal to the amount payable on such Bond at maturity exclusive of interest on such Bond which is payable on a semi-annual basis.

"Investment Securities" means and includes any of the following obligations, to the extent the same are consistent with the then existing investment policy of THDA and at the time legal for investment of funds of THDA under the Act, including the amendments thereto hereafter made, or under other applicable law:

(1) bonds, notes and treasury bills of the United States of America or other obligations guaranteed as to principal and interest by the United States of America or any of its agencies;

(2) obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association;

(3) repurchase agreements for obligations of the United States of America or its agencies with any financial institution with long-term unsecured debt rated at least "AA" by S&P and "Aa3" by Moody's;

(4) certificates of deposit in banks and savings and loan associations recognized as "State Depositories" pursuant to Section 9-4-107 of the Tennessee Code Annotated; provided, that certificates of deposit are collateralized in accordance with Section 9-4-403 of the Tennessee Code Annotated, and provided, further, that the provider of such certificate of deposit shall have a long-term unsecured debt rating of at least "AA-" by S&P and "Aa3" by Moody's;

(5) prime commercial paper which shall be rated in the highest category by S&P and Moody's;

(6) prime banker's acceptances (having maturities of not more than 365 days) that are eligible for purchase by the federal reserve system, provided by any bank, the short-term obligations of which are rated at least "A-1+" by S&P and "P-1" by Moody's;

(7) guaranteed investment contracts with any financial institution with a long-term unsecured debt rating of at least "AA" by S&P and "Aa3" by Moody's; provided that such guaranteed investment contract shall have a termination date no later than five and one half years from the date of issuance of the related series of Bonds, except that the termination date with respect to a guaranteed investment contract for any funds on deposit in the Bond Reserve Fund shall be no later than the maturity date of the related series of Bonds; and

(8) any other investments which, at the time of such investment, are authorized for investment of funds of THDA under the Act and would not adversely affect the then current rating assigned to the Bonds.

"Issuance Amount" means the price, exclusive of accrued interest (if any), at which a Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance thereof by THDA pursuant to Section 2.6, irrespective of underwriter's compensation, commissions, placement agent's fees, concessions, Costs of Issuance, or similar costs.

"Loan Fund" means the Loan Fund established in Section 5.1.

"Maturity Amount" means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on a semi-annual basis.

"Moody's" means Moody's Investors Service, Inc., and any successor.

"Non-Mortgage Receipts" means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund, but shall not include Revenues.

"Non-Mortgage Receipts Account" means the Non-Mortgage Receipts Account established in the Revenue Fund pursuant to this Resolution.

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

(1) any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

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

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

(b) Investment Securities, as described in Section 12.1(B), in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

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

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Section 3.6, Section 6.6 or Section 9.6; and

(4) any Bond deemed to have been paid as provided in subsection (B) of Section 12.1.

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

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

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with this Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in subsection 5.3(D), of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

"Program" means the various programs for the financing of loans for residential housing established by THDA pursuant to the Act and Program Guidelines, as the same may be amended from time to time consistent with this Resolution, but only to the extent that such programs are financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to this Resolution.

"Program Expenses" means all of THDA's expenses in carrying out and administering its duties and corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization and life and disability insurance benefits, payments for insurance against losses on the pool of Program Loans and payments to maintain letters of credit obtained to secure the ability of THDA to pay, redeem or purchase Bonds. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by THDA and amounts appropriate to reimburse THDA for Program Expenses paid from other sources. Program Expenses shall include the amount of any rebate required to be calculated and set aside by THDA pursuant to applicable federal tax law. THDA in its discretion may calculate the rebate amount annually or at the end of such other periods that it may choose as long as the first rebate calculation and all succeeding rebate calculations are performed no later than required by applicable federal tax law.

"Program Guidelines" means the Program Guidelines adopted by THDA for the Program as in effect on the date of adoption of this Resolution and as revised, amended, altered or supplemented from time to time in accordance with the Act.

"Program Loan" means any obligation, including a participation interest therein, acquired by THDA by the expenditure of amounts in the Loan Fund. Such Program Loan shall be made to finance the acquisition of residential housing, or if authorized by a Supplemental Resolution, to finance costs of improvements to or rehabilitation of residential housing or to provide downpayment and closing cost assistance. If authorized by a Supplemental Resolution, the term "Program Loan" shall also include a Program Security backed by a pool of Program Loans satisfying any conditions as may be set forth in such Supplemental Resolution.

"Program Loan Loss Coverage" means that portion of the principal amount of Program Loans outstanding which must be treated as a loss for purposes of maintaining the current ratings on the Bonds.

“Program Security” means an obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

“Projected Cash Flow Statement” means a Certificate delivered pursuant to the provisions of Section 7.11.

“Rating Agency” means any nationally recognized credit rating agency then maintaining a rating on the Bonds at the request of THDA; initially, Moody’s and S&P.

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

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

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

“Refunding Bond” means any Bond authenticated and delivered on original issuance pursuant to Section 2.7 or thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to this Resolution.

“Resolution” means this Resolution and any amendments or supplements made in accordance with its terms.

“Revenue Fund” means the Revenue Fund established pursuant to Section 5.1.

“Revenues” means, upon receipt thereof by THDA, all payments proceeds, rents, charges and other cash income received by THDA from or on account of any Program Loan (including scheduled, delinquent and advance payments of, and any insurance proceeds with respect to, principal and interest on any Program Loan) or Program Security, but excludes (i) any amount retained by a servicer of any Program Loan as compensation for services rendered in connection with such Program Loan, (ii) any payments for the guaranty or insurance of any Program Loan or Program Security, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Loan and (iv) payments or charges constituting construction performance or completion reserves required pursuant to a Program Loan.

“S&P” means Standard & Poor’s Rating Services, a Standard & Poor’s Financial Services LLC business, and any successor.

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

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

“State” means the State of Tennessee.

“Supplemental Resolution” means any resolution supplemental to or amendatory of this Resolution, adopted by THDA and effective in accordance with Article VIII.

“THDA” means the Tennessee Housing Development Agency, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of THDA.

“Trustee” means U.S. Bank National Association, the Trustee appointed as provided in Section 11.1 and its successor or successors and any other person at any time substituted in its place pursuant to this Resolution.

Section 1.3. Interpretation. In this Resolution, unless the context otherwise requires:

- (1) the terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Resolution, refer to this Resolution, and the term “heretofore” means before, and the term “hereafter” means after, the date of adoption of this Resolution;
- (2) words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa;
- (3) words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;
- (4) any headings preceding the texts of the several Articles and Sections of this Resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect;
- (5) if at any time there shall be one person who shall be the holder of all of the Outstanding Bonds and the consent of the Trustee shall be required, the consent of such person shall be required in lieu of the consent of the Trustee, unless such person shall have been notified and shall not have consented within a reasonable period of time;
- (6) this Resolution shall be governed by and construed in accordance with the applicable laws of the State;
- (7) words importing the redemption or redeeming of a Bond or the calling of a Bond for redemption do not include or connote the payment of such Bond at its stated maturity or the purchase of said Bond;
- (8) the date upon which any Sinking Fund Payment is required to be paid pursuant to this Resolution and the provisions of the Bonds of each Series shall be deemed to be the date upon which such Sinking Fund Payment is payable and the Outstanding Bonds to be retired by application of such Sinking Fund Payment shall be deemed to be the Bonds entitled to such Sinking Fund Payment;
- (9) the verb “finance”, when used with reference to a Program Loan, shall be construed to include (i) the making or purchase of such Program Loan (ii) the participation by THDA, either with itself or with others, in the making or purchase thereof or (iii) the permanent financing of a Program Loan which has been temporarily financed by THDA through the issuance of notes or other obligations or otherwise;
- (10) references to the payment of the Bonds shall be deemed to include references to the payment of interest thereon;
- (11) any moneys, documents, securities, obligations or other items received by the Trustee pursuant to the terms of this Resolution shall be deemed to have been received by THDA;
- (12) any reference in this Resolution to principal or interest on bonds which is payable on a certain date or during a certain period of time is a reference to an amount payable on such date or during such period and does not include the obligation to pay any principal or interest after such date or period;
- (13) any reference to the principal amount of Bonds shall be a reference to the Maturity Amount or the Compounded Amount thereof as of any particular date of computation in the case of Appreciation Bonds and shall mean the amount, irrespective of interest, payable upon the maturity of any Bond which is not an Appreciation Bond;
- (14) references to “semi-annual” payments of interest or compounding of yield refer to payment or compounding on January 1 and July 1 of each year; and
- (15) the “Compounded Amount” of an Appreciation Bond represents an accrual of the principal amount thereof payable at maturity and does not represent interest thereon, except that, for purposes of determining the Redemption Price of a Bond, the priority of payments under Section 10.3 and the required principal amount in connection with approvals and consents of Bondholders pursuant to this resolution, any

increase in the Compounded Amount occurring since the most recent Interest Payment Date shall be treated as if it were interest.

(B) Nothing in this Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than THDA, the Fiduciaries and the holders of the Bonds, any right, remedy or claim under or by reason of this Resolution or any covenant, condition or stipulation thereof. All the covenants, stipulations, promises and agreements herein contained by and on behalf of THDA, shall be for the sole and exclusive benefit of THDA, the Fiduciaries and the holders of the Bonds.

(C) If any one or more of the covenants or agreements provided herein on the part of THDA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed separable from the remaining covenants and agreements hereof and shall in no way affect the validity of the other provisions of this Resolution or of the Bonds.

ARTICLE II

TERMS OF BONDS

Section 2.1. Authorization for Resolution and Bonds. This Resolution and the issuance of Bonds hereunder have been duly authorized by THDA and the principal amount of Bonds that may be issued hereunder is not limited except as provided herein or by law. THDA has ascertained and it is hereby determined and declared that the adoption of this Resolution is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of THDA in accordance with the Act and to carry out powers expressly given in the Act, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful and convenient to carry out and effectuate the purposes of THDA under the Act.

Section 2.2. Resolution to Constitute Contract. The provisions of this Resolution shall be deemed to be and shall constitute a contract among THDA, the Trustee and the holders from time to time of the Bonds. The pledges and assignments made hereby and the provisions, covenants and agreements herein set forth to be performed by or on behalf of THDA shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, each of which, regardless of the time or times of its issue or maturity, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in this Resolution.

Section 2.3. Obligation of Bonds.

(A) This Resolution creates an issue of Bonds of THDA and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on such Bonds, including any Sinking Fund Payments for the retirement thereof. The Bonds shall be special, limited obligations of THDA payable solely from the revenues and assets pledged therefor pursuant to this Resolution. The Bonds shall not be deemed to constitute a debt, liability, or obligation of the State or of any other political subdivision thereof, and neither the full faith and credit, nor the taxing power of the State or any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds. The Bonds shall contain on their face a statement that THDA shall not be obligated to pay the Bonds, nor the interest thereon, except from the revenues or assets pledged by THDA therefor and that neither the full faith and credit, nor the taxing power of the State or of any political subdivision thereof, is pledged to the payment of the principal of or the interest on the Bonds.

(B) The Revenues and Non-Mortgage Receipts and all amounts held in any Fund or Account, including investments thereof, are hereby pledged to secure the payment of the Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of this Resolution, subject only to the provisions of this Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. In addition, subject to the provisions of subsection 10.2(D), THDA hereby pledges and assigns, to secure the payment of the Bonds, all right, title and interest of THDA in and to the Program Loans, including any extensions and renewals thereof. To the fullest extent provided by the Act and other applicable laws, the money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

Section 2.4. Authorization of Bonds. In order to provide sufficient funds for the operation of the Program or for the refunding of Bonds, bonds of THDA are hereby authorized to be issued from time to time hereunder in one or more Series without limitation as to amount except as may be provided by law. No Bonds shall be issued unless they are part of an issue described in a Supplemental Resolution and until the conditions contained in Section 2.6 or, in the case of Refunding Bonds, Section 2.7 are satisfied.

Section 2.5. Issuance and Delivery of Bonds. After their authorization by THDA, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication and, upon compliance by THDA with the requirements of Section 2.6 and, in the case of Refunding Bonds, Section 2.7, the Trustee shall thereupon authenticate and deliver such Bonds to or upon the order of THDA.

Section 2.6. Conditions Precedent to Delivery of Bonds. The Bonds of each Series shall be executed by THDA for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to THDA or upon its order, but only upon the receipt by the Trustee of:

(1) a copy of the Supplemental Resolution authorizing such Series, certified by an Authorized Officer, which shall specify:

(a) the authorized principal amount (by reference to the amount payable at maturity thereof) and designation of such Bonds;

(b) the purposes for which such Bonds are being issued, which shall be one or more of the following: (i) the making of deposits into the Loan Fund, (ii) the making of deposits in at least the amounts, if any, required by this Resolution into the Revenue Fund and Bond Reserve Fund, (iii) the refunding of any Bonds, or (iv) any combination of the foregoing;

(c) the dated dates and maturity dates of such Series of Bonds (or the manner of determining such dates);

(d) the interest rates of such Bonds (or the manner of determining such rate or rates) and the Interest Payment Dates therefor;

(e) the denominations of, and the manner of dating, numbering and lettering, such Bonds;

(f) the Paying Agents and the places of payment of such Bonds or, subject to Article XI, the manner of appointing and designating the same;

(g) the Redemption Prices, if any, of and, subject to the provisions of Article VI, the redemption terms for such Bonds or the manner of determining such Redemption Prices or terms of redemption;

(h) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds of like maturity or the manner of determining such amounts and dates;

(i) provisions for the time, place and manner of such sale of such Bonds, as provided in the Act;

(j) provisions concerning the forms of such Bonds and of the Trustee's certificate of authentication; and

(k) any other provisions deemed advisable by THDA as shall not conflict with the provisions hereof;

(2) a Bond Counsel's Opinion to the effect that (i) such Supplemental Resolution and any other authorization or determination necessary as a condition precedent to the delivery of such Bonds has been duly and lawfully adopted or made and is in full force and effect; (ii) this Resolution has been duly and lawfully authorized, executed and delivered by THDA and is valid and binding upon, and enforceable against, THDA (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); (iii) this Resolution creates the valid pledge which

it purports to create of the Revenues and of moneys and securities or deposit in any of the Funds established hereunder, including the investments, if any, thereof, subject to the application thereof to the purposes and on the conditions permitted by this Resolution; and (iv) upon the execution, authentication and delivery thereof, such Bonds will have been duly and validly authorized and issued in accordance with the constitution and statutes of the State, including the Act as amended to the date of such Opinion, and in accordance with this Resolution;

(3) a written order as to the delivery of such Bonds, signed by an Authorized Officer and attaching a schedule of Compounded Amounts in the event THDA wishes to specify such amounts with respect to any Appreciation Bonds which constitute a portion of such issue;

(4) the amount of the proceeds of such Bonds to be deposited with the Trustee pursuant to Section 4.1;

(5) except in the case of the initial Series of Bonds hereunder, a Certificate of an Authorized Officer stating that the conditions of Section 7.14 for the issuance of additional Bonds have been met;

(6) a Projected Cash Flow Statement, as of the date of such delivery, complying with the conditions of subsection 7.11(C); and

(7) such further documents and moneys as are required by the provisions of Article VIII or any Supplemental Resolution entered into pursuant to Article VIII.

Section 2.7. Conditions Precedent to Delivery of Refunding Bonds.

(A) In addition to the requirements of Section 2.6, Refunding Bonds of any Series shall be authenticated by the Trustee only upon the receipt by the Trustee of:

(1) irrevocable instructions to the Trustee to give due notice of the payment or redemption of all the obligations to be refunded (which may include Bonds, or bonds or other obligations of THDA issued pursuant to THDA resolutions other than the Resolution) and the payment or redemption dates, if any, upon which such obligations are to be paid or redeemed;

(2) if the obligations to be refunded are to be redeemed subsequent to the next succeeding ninety days, irrevocable instructions to the Trustee to give, in accordance with the appropriate resolution of THDA which authorized the issuance of such obligations, notice of the redemption of such obligations on a specified date prior to their redemption date; and

(3) either (i) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable redemption price of the obligations to be refunded, together with accrued interest on such obligations to the due date or redemption date, or (ii) Investment Securities as described in subsection (B) of Section 12.1 (or, as applicable, such other investments as required by the appropriate resolution of THDA which authorized the issuance of such obligations to cause such obligations to be similarly defeased), the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or redemption price of the obligations to be refunded, together with accrued interest on such obligations to the redemption dates or dates of maturity thereof, which moneys or appropriate investments shall be held by the Trustee or any one or more of the Paying Agents in the Redemption Fund, or, as applicable, by the Trustee under the resolution of THDA which authorized the issuance of such obligations.

(B) To the extent the obligations being refunded are Bonds issued hereunder, except as provided in Section 12.1 or paragraph 10.2(A)(6), neither Investment Securities nor moneys deposited with the Trustee pursuant to paragraph (A)(3) of this Section or principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than the payment of the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, and any cash received from such principal or interest payments, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Securities as are described in subsection 12.1(B) maturing at times and in amounts sufficient to pay when due the

principal or applicable Redemption Price of such Bonds, together with such accrued interest. Nothing in this Section, however, is intended to restrict the use of amounts received on account of any portion of the principal or interest on any Investment Securities deposited pursuant to subsection (A) above which are in excess of the amounts required to be so deposited in order to provide moneys sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds and, to the extent such Bonds have been deemed to have been paid within the meaning of Section 12.01, such amounts may be pledged by THDA and withdrawn by THDA as received and applied to any purpose of THDA, free and clear of the lien of this Resolution.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1. Medium of Payment, Denomination, Maturities, Form and Date.

(A) The Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Except as may otherwise be provided in a Supplemental Resolution, all Bonds shall be in the denomination of \$5,000 each or in denominations of any whole multiple thereof.

(C) Except as may otherwise be provided in a Supplemental Resolution, the date upon which any Principal Installment with respect to a Series of Bonds is payable shall be the first day of any January or July. Except as may otherwise be provided in a Supplemental Resolution, interest on each Bond shall be payable semiannually on the first day of any January or July commencing, with respect to any Series of Bonds, on the January 1 or July 1 set forth in the Supplemental Resolution adopted in connection with the issuance of such Series.

(D) Bonds shall be issued in fully registered form, without coupons.

(E) All Bonds shall bear interest from their date unless another date for the accrual of interest thereon is specified in such Bond. Interest may be made payable at a final or variable rate, based on the principal amount of the Bond (including the Compounded Amount from time to time), or upon any other amount specified in the Bond or incorporated therein by reference. Upon the original delivery of the Bonds or an exchange or transfer of Bonds pursuant to Section 3.5 or Section 3.6 hereof, the Trustee shall note the date of authentication on each Bond to be delivered. Each Bond delivered upon transfer or in exchange for or in lieu of any other Bond shall carry all the right to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.2. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Resolution as may be necessary or desirable to comply with custom, or otherwise.

Section 3.3. Interchangeability of Bonds. Upon surrender thereof at the principal or corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his duly authorized attorney, Bonds may at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Trustee may make as provided in Section 3.6, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity and interest rate of any of the authorized denominations.

Section 3.4. Negotiability and Registry. All the Bonds issued under this Resolution shall be negotiable, subject to the provisions for registration, transfer and exchange contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, THDA shall maintain and keep, at the principal or corporate trust office of the Trustee, books for the registration, transfer and exchange of Bonds. So long as any of the Bonds remain Outstanding, THDA shall make all necessary provisions to permit the exchange of Bonds at the corporate trust office of the Trustee.

Section 3.5. Transfer of Bonds.

(A) Except as provided for in Section 3.7 herein, each fully registered Bond shall be transferable only upon the books of THDA, which shall be kept for such purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written

instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any such fully registered Bond, THDA shall issue in the name of the transferee a new fully registered Bond or Bonds of the same aggregate principal amount, Series and maturity as the surrendered Bond.

(B) THDA and any Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of THDA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither THDA nor any Fiduciary shall be affected by any notice to the contrary.

Section 3.6. Regulations With Respect to Exchanges and Transfers. Except as provided for in Section 3.6 herein, in all cases in which the privilege of exchanging or transferring Bonds is exercised, THDA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Resolution. For every such exchange or transfer of Bonds, whether temporary or definitive, THDA or the Trustee may make a charge sufficient to reimburse it for any expenses of THDA or the Trustee in connection therewith and for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except with respect to the delivery of definitive Bonds in exchange for temporary Bonds or as otherwise provided herein, may charge a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer, which sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. If the Bonds are not registered with a central depository system as provided in Section 3.7, THDA shall not be obliged to make any such exchange or transfer of Bonds (i) during the ten days preceding an Interest Payment Date on such Bonds, (ii) during the ten days preceding the date of the mailing of notice of any proposed redemption of Bonds, or (iii) with respect to any particular Bond, after such Bond has been called for redemption. THDA may, by written notice to the Trustee, establish a record date for the payment of interest or for the giving of notice of any proposed redemption of Bonds, but such record date shall be not more than ten days preceding an Interest Payment Date on such Bonds or, in the case of any proposed redemption of Bonds next preceding the date of the first redemption of Bonds.

Section 3.7. Central Depository System.

(A) Notwithstanding the other provisions of this Resolution regarding registration, ownership, transfer, Bondholder consent, payment and exchange of Bonds, and the giving of notices of Bondholders as required by the provisions of this Resolution, a Supplemental Resolution may provide that all or a portion of Bonds shall be issued as book-entry only Bonds and registered in the name of a central securities depository or its nominee (the "Central Securities Depository"), in which case matters relating to registration, ownership, transfer, consent, payment and exchange of Bonds, and relating to the giving of notices to Bondholders as required by the provisions of this Resolution, shall be governed by the operational arrangements of such Central Securities Depository.

(B) With respect to Bonds registered in the registry books kept by the Trustee in the name of a Central Securities Depository, THDA and the Trustee shall have no responsibility or obligation to any participant or to any beneficial owner. Without limiting the immediately preceding sentence, THDA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Central Securities Depository or any participant with respect to any ownership interest in the Bonds, (ii) the delivery to any participant, any beneficial owner or any other person other than the Central Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any participant, any beneficial owner or any other person, other than the Central Securities Depository, of any amount with respect to the principal of or premium, if any or interest on the Bonds. THDA and the Trustee may treat as and deem the Central Securities Depository to be the absolute owner of each Bond, for the purpose of payment of the principal of and premium and interest on such Bond for the purpose of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Central Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge THDA's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than the Central Securities Depository shall receive an authenticated Bond evidencing the obligation of THDA to make payments of principal of and premium, if any, and interest pursuant to this Resolution. Upon delivery by the Central Securities Depository to the Trustee of written notice to the effect that the Central Securities Depository has determined to substitute a new nominee, and subject to the provisions herein with respect to consents, the words "Central Securities Depository" in this Resolution shall refer to such new nominee of the Central Securities Depository.

(C) Upon receipt by THDA and the Trustee of written notice from the Central Securities Depository to the effect that the Central Securities Depository is unable or unwilling to discharge its responsibilities and no substitute the Central Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, then the Bonds shall no longer be restricted to being registered in the registry books of THDA kept by the Trustee in the name of the Central Securities Depository, but may be registered in whatever name or names the beneficial owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Resolution.

(D) In the event THDA determines that it is in the best interests of the beneficial owners that they be able to obtain Bond certificates and subject to the operational arrangements of such Central Securities Depository, THDA may notify the Central Securities Depository and the Trustee, whereupon the Central Securities Depository will notify the participants, of the availability through the Central Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Central Securities Depository and any other Bondowners in appropriate amounts, and whenever the Central Securities Depository requests THDA and the Trustee to do so, the Trustee and THDA will cooperate with the Central Securities Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bond to any Central Securities Depository participant having Bonds credited to its Central Securities Depository account or (ii) to arrange for another Central Securities Depository to maintain custody of certificates evidencing the Bonds.

(E) In connection with any notice of other communication to be provided to Bondholders pursuant to this Resolution by THDA or the Trustee with respect to any consent or other action to be taken by Bondholders, THDA or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Central Securities Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(F) Any transfer of a Bond affected in accordance with this Section 3.7 shall be subject to applicable laws of the State.

Section 3.8. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, THDA shall execute and the Trustee shall authenticate a new Bond of like interest rate, maturity, principal amount and other terms as the Bond so mutilated, destroyed, stolen or lost. In the case of a mutilated Bond, such new Bond shall be delivered only upon surrender and cancellation of such mutilated Bond. In the case of Bonds issued in lieu of and substitution for a Bond which have been destroyed, stolen or lost, such new Bond shall be delivered only upon filing with the Trustee of evidence satisfactory to establish to THDA and the Trustee that such Bond have been destroyed, stolen or lost and to prove the ownership thereof and upon furnishing THDA and the Trustee with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond pursuant to this Section shall comply with such other reasonable regulations as THDA and the Trustee may prescribe and pay such expenses as THDA and the Trustee may incur in connection therewith. All Bonds so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to THDA.

Section 3.9. Preparation of Definitive Bonds; Temporary Bonds.

(A) Definitive Bonds shall be typed, lithographed or printed on steel engraved borders; provided, that Bonds which are held by a Central Securities Depository shall be in form acceptable to such Central Securities Depository. Until definitive Bonds are prepared THDA may execute and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability, one or more temporary Bonds, substantially of the tenor of the definitive Bonds in lieu of which such temporary Bonds are issued, in denominations of \$5,000 or such other denomination as may be authorized for such Bonds or any multiple thereof, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. Upon surrender of such temporary Bonds for exchange and cancellation, THDA at its own expense shall prepare and execute and, without charge to the holder thereof, deliver in exchange therefor, at the corporate trust office of the Trustee, definitive Bonds of the same aggregate principal amount, Series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to this Resolution.

(B) All temporary Bonds surrendered in exchange for definitive Bonds shall be forthwith cancelled by the Trustee.

Section 3.10. Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with

all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a Certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed Certificate shall be filed with THDA and the other executed Certificate shall be retained by the Trustee. Notwithstanding the foregoing, Bonds purchased by THDA shall not be cancelled to the extent that upon such purchase THDA shall have delivered to the Trustee (i) a Certificate of an Authorized Officer to the effect that such Bond shall be purchased but not cancelled and (ii) in the event the interest on such Bonds is excludable from gross income for purposes of federal income taxation, a Bond Counsel's Opinion to the effect that the failure to cancel such Bond will not, in and of itself, adversely affect such excludability.

Section 3.11. Execution and Authentication.

(A) After their authorization by a Supplemental Resolution, Bonds of a Series may be executed by or on behalf of THDA and delivered to the Trustee for authentication. The Bonds shall be executed in the name and on behalf of THDA by the manual or facsimile signature of the Chairman, Vice Chairman or Executive Director of THDA and the corporate seal of THDA (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon, and attested by the manual or facsimile signature of any other Authorized Officer, or in such other manner as may be required by law. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been actually delivered, such Bonds may, nevertheless, be delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office or be so employed. Any Bonds of a Series may be signed and sealed on behalf of THDA by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by THDA, although the date of the Bonds of such Series such persons may not have been so authorized or have held such office or employment.

(B) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing such Bonds, executed manually by the Trustee. No Bond shall be entitled to any right or benefit under this Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of THDA shall be conclusive evidence that the Bond so authenticated and delivered under this Resolution and that the holder thereof is entitled to the benefits hereof.

ARTICLE IV

APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

Section 4.1. Application of Bond Proceeds, Accrued Interest and Premium. The proceeds of sale of any Series of Bonds, other than the proceeds of Refunding Bonds, shall, as soon as practicable upon the delivery thereof by the Trustee pursuant to Section 2.6 be applied as follows:

(1) the amount, if any, necessary to cause the amount on deposit in the Bond Reserve Fund to at least equal the Bond Reserve Fund Requirement immediately following the time of such delivery shall be deposited in the Bond Reserve Fund, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Series; and

(2) the balance remaining after such deposit has been made shall be applied as specified in the Supplemental Resolution or as provided in a Certificate of an Authorized Officer.

Section 4.2. Application of Amounts in the Loan Fund. No amount in the Loan Fund shall be expended or applied for the purpose of financing Program Loans except upon compliance with the provisions of subsection 5.2(C). In addition, no Program Loan shall be financed unless such Program Loan (i) complies in all respects with the Act in effect on the date of financing and (ii) complies with any additional program covenants or requirements contained in the related Supplemental Resolution.

Section 4.3. Application of Proceeds of Refunding Bonds. The proceeds of the Refunding Bonds of a Series shall be deposited in the Redemption Account or the Debt Service and Expense Account as provided in the Supplemental Resolution authorizing such Bonds.

Section 4.4. Deposits. Except as provided in Sections 2.7 and 12.1 and subject to the right of THDA to direct the deposit of funds, whenever such amounts are not invested in Investment Securities, the Trustee shall, if permitted by law, deposit amounts or cause amounts to be deposited from any Fund held by the Trustee or under its control pursuant to the terms of this Resolution in interest-bearing time deposits or certificates of deposit, or may enter into repurchase agreements or make other similar banking arrangements with itself or a member bank or banks of the Federal Reserve System or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation or its successor. Each such interest-bearing time deposit, repurchase agreement or certificate of deposit or other similar banking arrangement shall permit the moneys so placed to be available at the times at which moneys are needed by THDA to be expended and, except to the extent that any such deposits shall be insured by the United States of America or the Federal Deposit Insurance Corporation, or its successor, on terms which in the judgment of THDA (as expressed in written instructions to the Trustee) provide reasonable liquidity, all moneys in each such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be either continuously and fully secured under the laws of the State as determined by Board of Directors of THDA by Investment Securities (or other obligations rated in either of the two highest rating categories by a nationally recognized rating service) having a market value equal at all times to the amount of the interest-bearing time deposit, repurchase agreement, certificate of deposit or other similar banking arrangement. Notwithstanding the foregoing, repurchase agreements and other similar arrangements may also be entered into with government bond dealers reporting to, trading with and recognized as primary dealers by a Federal Reserve Bank and may be entered into with any other person if (i) all amounts payable thereunder, are fully and continuously secured by Investment Securities of the type described in clauses (1) through (6) of the definition thereof in Section 1.2, (ii) the Trustee shall receive confirmation that such securities are being held for the benefit (and subject to the direction) of the Trustee by a national bank or member bank of the Federal Reserve System other than the obligor under such arrangement and (iii) the market value of the Investment Securities being held shall be maintained at a level sufficient to maintain the then current rating on the Bonds by each Rating Agency.

Section 4.5. Investment of Certain Funds.

(A) Subject to the right of THDA to direct the investment or deposit of funds hereunder in accordance with this Section, moneys in any Fund shall be continuously invested and reinvested or deposited and redeposited in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing current return (with proper preservation of principal) and minimizing the instances of uninvested funds. THDA shall consult with the Trustee from time to time as to the investment of amounts in the Funds established or confirmed by this Resolution. THDA may direct the Trustee to, or in the absence of direction, the Trustee shall, invest and reinvest the moneys in any Fund in Investment Securities in accordance with this Section and toward the objective that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended.

(B) Investment Securities purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Resolution shall be deemed at all times to be a part of such Fund but, except as may be otherwise provided for amounts deposited in the Redemption Fund in connection with the issuance of Refunding Bonds, the income or interest earned and gains realized in excess of losses suffered by a Fund due to the investment thereof shall be deposited as Non-Mortgage Receipts in the Non-Mortgage Receipts Account or shall be credited as Non-Mortgage Receipts to the Non-Mortgage Receipts Account from time to time and reinvested.

(C) The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Security purchased by it pursuant to this Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made or whenever, in the discretion of THDA, any such sale or presentment is necessary in compliance with Section 7.9. The Trustee shall advise THDA in writing, on or before the twentieth day of each calendar month, of all investments held for the credit of each Fund in its custody under the provisions of this Resolution as of the end of the preceding month.

Section 4.6. Valuation and Sale of Investments.

(A) In computing the amount in any Fund, obligations purchased as an investment of moneys therein shall be valued at market, except that for purposes of determining the Bond Reserve Fund Requirement, Investment Securities shall be valued at amortized value. Amortized value means par, if the obligation was purchased at par, or, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of interest payments remaining on such obligation after such purchase and deducting the amount thus calculated for each interest payment date after such purchase from the purchase price in the case of an obligation purchased at a

premium or adding the amount thus calculated for each interest payment date after such purchase to the purchase price in the case of an obligation purchased at a discount. Valuation shall be made as soon as practicable prior to each Interest Payment Date and at any other time required hereunder, and on any particular date shall not include the amount of interest then earned or accrued to such date on any investment.

(B) Except as otherwise provided herein, the Trustee shall sell at the best price obtainable, or present for redemption, any Investment Security whenever it shall be requested in writing by an Authorized Officer to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. An Investment Security may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another.

ARTICLE V

FUNDS

Section 5.1. Establishment of Funds.

(A) THDA hereby establishes and creates the following special trust funds:

- (1) Loan Fund;
- (2) Revenue Fund; and
- (3) Bond Reserve Fund.

(B) All such Funds shall be held and maintained by the Trustee and shall be identified by THDA and the Trustee according to the designations herein provided in such manner as to distinguish such Funds from the Funds established by THDA for any other of its obligations. All moneys or securities held by the Trustee pursuant to this Resolution shall be held in trust and applied only in accordance with the provisions of this Resolution and the Act.

(C) This Resolution contemplates the establishment of Subaccounts within the Funds created pursuant to this Resolution. In addition to the Subaccounts established hereunder, the Trustee may from time to time, establish, close and reestablish such additional Funds, Accounts or Subaccounts as may be requested by THDA for convenience of administration of the Program and as shall not be inconsistent with the provisions of this Resolution. Notwithstanding anything in this Resolution to the contrary, including Section 2.2 hereof, to the extent provided in a Supplemental Resolution authorizing a Series of Bonds, THDA may cause the Trustee to establish a Subaccount into which the net proceeds of such Series of Bonds shall be deposited, held, applied and invested separate and apart from all other funds on deposit hereunder and such Supplemental Resolution may provide that initial proceeds of such Bonds on deposit therein are pledged solely to certain of the Bonds of such Series.

Section 5.2. Loan Fund.

(A) There shall be deposited from time to time in the Loan Fund any amount required to be deposited therein pursuant to this Resolution and any other amounts determined to be deposited therein from time to time.

(B) Amounts in the Loan Fund shall be expended only (i) to finance Program Loans, in accordance with Section 4.2; (ii) to pay Costs of Issuance; (iii) to make deposits in the Debt Service and Expense Account, representative of capitalized interest, in the manner provided in subsection (D) of this Section; (iv) to redeem Bonds in accordance with subsection (E) of this Section; and (v) to provide amounts for deposit in the Debt Service and Expense Account in accordance with subsection (F) of this Section. All Program Loans financed by application of amounts in the Loan Fund shall be credited to the Loan Fund.

(C) THDA shall maintain accurate records in the office of THDA describing for each Program Loan the amounts applied to the financing of such Program Loan and the persons and dates related to such payments. Upon the direction by THDA to apply amounts on deposit to the financing of Program Loans an Authorized Officer shall certify that, as to the Program Loans expected to be financed (i) the terms of such Program Loans will conform to the description of the Program Loans to be financed from such amount as set forth in the most recent Projected Cash Flow Statement delivered to the Trustee and (ii) such Program Loans will comply with the provisions of Section 4.2. The

Trustee shall pay out and permit the withdrawal of amounts on deposit in the Loan Fund at any time for the purpose of making payments pursuant to this Section only upon receipt of:

(1) a written requisition setting forth the amount to be paid, the person or persons to whom such payment is to be made (which may be or include THDA) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) a Certificate of an Authorized Officer identifying such requisition and stating that the amount to be withdrawn from the Loan Fund pursuant to such requisition is a proper charge thereon.

(D) At least one day prior to each Interest Payment Date THDA shall deliver to the Trustee a Certificate of an Authorized Officer setting forth the amount necessary, in the opinion of such Authorized Officer, to pay interest on the Bonds of each Series from the amount on deposit in the Loan Fund, after giving effect to the actual and expected application of amounts therein to the financing of Program Loans as of the date of such Certificate. Upon receipt of such Certificate the Trustee shall transfer the amount so stated for each Series to the Debt Service and Expense Account, but only to the extent that the cumulative amount of such transfers does not exceed for each Series the amount stated as necessary to be reserved in the Loan Fund for the purpose of paying capitalized interest pursuant to the Projected Cash Flow Statement delivered in connection with the delivery of such Series pursuant to subsection 7.11 plus the amount, if any, certified by an Authorized Officer as available for such purpose from amounts originally reserved in the Loan Fund for the payment of capitalized interest and Costs of Issuance with respect to other Series in excess of the amounts actually required therefor.

(E) At any time THDA may direct the Trustee in writing to transfer amounts in the Loan Fund to the Redemption Account or to apply such amounts directly to the redemption, purchase or retirement of Bonds in accordance with their terms and the provisions of Article VI.

(F) THDA may at any time direct the Trustee to transfer amounts in the Loan Fund to the Revenue Fund, but only if there is delivered to the Trustee a Projected Cash Flow Statement showing the amount to be so transferred and that, after giving effect to such transfer, such Statement complies with subsection 7.11(C).

Section 5.3. Revenue Fund.

(A) The Trustee shall establish and create within the Revenue Fund three Accounts into which amounts shall be deposited and from which amounts shall be transferred as provided in this Section. These Accounts shall be designated as the Debt Service and Expense Account, the Redemption Account and the Non-Mortgage Receipts Account. THDA shall cause all Revenues to be deposited promptly with the Trustee (at least monthly) and such amounts shall be deposited in the Debt Service and Expense Account. There shall also be deposited in the Debt Service and Expense Account any other amounts required to be deposited therein pursuant to this Resolution.

(B) The Trustee shall pay out of the Debt Service and Expense Account to the respective Paying Agents for any of the Bonds (i) on or before each Interest Payment Date, the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date and (ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of accrued interest on Outstanding Bonds redeemed or purchased for retirement, unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by such Paying Agents to such payments. Upon receipt of appropriate requisitions and certificates reflecting such payment in the form prescribed by subsection 5.2(C), amounts on deposit in the Debt Service and Expense Account may be applied to the payment of accrued interest in connection with the financing of any Program Loan.

(C) Prior to the forty-fifth day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service and Expense Account up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by an Authorized Officer of THDA shall, be applied (together with amounts accumulated in the Revenue Fund with respect to interest on the Bonds for which such Sinking Fund Payment was established) by the Trustee as follows:

(1) to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest

accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine; or

(2) to the redemption, pursuant to Article VI, of such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (1) hereof.

(D) Upon the purchase or redemption of any Bond pursuant to subsection (C) of this Section, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment shall be credited by the Trustee against future Sinking Fund Payments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in subsection (K) of this Section (or the original amount of any such Sinking Fund Payment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(E) As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed to call for redemption pursuant to Section 6.3, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service and Expense Account sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee shall pay out of the Debt Service and Expense Account to the appropriate Paying Agents on the date preceding each such Redemption Date the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(F) Upon delivery by THDA to the Trustee of a Certificate of an Authorized Officer which states the amount then on deposit in the Debt Service and Expense Account, the Trustee shall promptly transfer from the Debt Service and Expense Account an amount equal to the amount stated in such Certificate as follows:

FIRST: From amounts representing principal payments on Program Loans, the amount, if any, as shall be required by the Code to be applied to the redemption of Bonds shall be transferred to the Redemption Account.

SECOND: From the amount, if any, so available after the transfer provided above has been made, the amount, if any, as shall be required to make any arbitrage rebate payment to the United States of America as required by the Code shall be transferred to THDA to be applied to such payment.

THIRD: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, by which the amount on deposit in the Bond Reserve Fund is less than the Bond Reserve Fund Requirement shall be transferred to the Bond Reserve Fund.

FOURTH: From the amount, if any, so available after the transfers provided above have been made, the amount needed to pay reasonable and necessary Program Expenses which are due and owing shall be transferred to THDA, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

FIFTH: From the amount, if any, so available after the transfers provided above have been made, the amount, if any, to be transferred to the Loan Fund shall be so transferred, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

SIXTH: From the amount, if any, so available after any transfers provided for above have been made, the remaining amount may be transferred to the Redemption Account upon the direction of THDA and thereafter applied in accordance with subsection (I) of this Section. If the amount of Program Loans (valued at par) and

Investment Securities held by the Trustee hereunder (other than Investment Securities in the Redemption Account) valued in accordance with this Resolution, is greater than 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, then the amount remaining, up to such excess above the 102% of the principal amount of all Bonds Outstanding plus the Program Loan Loss Coverage, may be withdrawn from the Debt Service and Expense Account at any time during the then current Fiscal Year, upon receipt by the Trustee of a Certificate to such effect from an Authorized Officer of THDA, to be applied to any purpose of THDA consistent with Section 7.9, free and clear of the lien of any pledge of this Resolution, provided that such transfer is in an amount less than or equal to the amount of such transfer as set forth in the most recent Projected Cash Flow Statement. The Trustee may transfer an amount greater than the amount as set forth in the most recent Projected Cash Flow Statement upon receipt of a Certificate of an Authorized Officer containing an amended Projected Cash Flow Statement that reflects such greater amount and complies with subsection 7.11(C).

(G) Notwithstanding any other provision of this Section, the Trustee may at any time, upon the written direction of an Authorized Officer, (i) make transfers from the Debt Service and Expense Account to the Bond Reserve Fund, or the Redemption Account or (ii) make payments to THDA for the purpose of paying reasonable and necessary Program Expenses for the then current Fiscal Year. No such transfer or payment shall be made, however, unless such withdrawal is in an amount less than or equal to the amount of such withdrawal as set forth in the most recent Projected Cash Flow Statement.

(H) Notwithstanding the provisions of subsection (A) of this Section, no payments shall be required to be made into the Debt Service and Expense Account so long as the amount on deposit therein shall be sufficient to pay all Outstanding Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the Bonds have been defeased in accordance with Section 12.1 hereof; any Revenues thereafter received by THDA may be applied to any corporate purpose of THDA free and clear of the lien of the pledge of this Resolution.

(I) There shall be deposited in the Redemption Account any amounts which are required to be deposited therein pursuant to this Resolution and any other amounts available therefor and determined by THDA to be deposited therein. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, all amounts deposited in the Redemption Account shall be applied to the payment, purchase or redemption of Bonds, at the earliest practicable Redemption Date. Subject to the provisions of this Resolution or of any Supplemental Resolution authorizing the issuance of Bonds, requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Redemption Account to the purchase or redemption of Bonds at the times and in the manner provided in this Section and Article VI. Any earnings derived from the investment of amounts deposited in the Redemption Account pursuant to Section 2.7 shall, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in said Section, be deposited in the Redemption Account. Amounts on deposit in the Redemption Account for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Supplemental Resolution authorizing the issuance of Refunding Bonds, including amounts derived from the investment thereof as provided in this subsection, shall be segregated and shall be identified as such on the records of the Trustee.

(J) Except as may be otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty-fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit therein. THDA may, however, by delivery to the Trustee of written instructions to such effect signed by an Authorized Officer, require or prohibit such purchases in the discretion of THDA. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as THDA shall from time to time direct or, in the absence of such direction, as the Trustee may determine in its sole discretion and as may be possible with the amounts then available therefor. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond unless such Bond may be redeemed in accordance with this Resolution on any date or dates within thirteen months after such purchase, in which event such purchase price shall not exceed the highest Redemption Price payable on any such date upon the redemption of such Bond. In the event the Trustee is able to purchase Bonds at a price less than the Redemption Price at which such Bonds were to be redeemed, then, upon the payment by the Trustee of the purchase price of such Bonds, the Trustee shall transfer the difference between the amount of such purchase price and the amount of such Redemption Price, and deposit the same in the Debt Service and Expense Account within the Revenue Fund.

(K) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Redemption Account, there shall be credited toward each such Sinking Fund Payment thereafter to become due an amount as nearly as may be practicable in multiples of \$5,000 (or such other denomination as shall be authorized for the related Series of Bonds) bearing the same ratio to such Sinking Fund Payment, as the total principal amount of such Bond so purchased or redeemed bears to the total amount of all such Sinking Fund Payments to be credited. If, however, there shall be filed with the Trustee written instructions of an Authorized Officer specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments shall be credited as shall be provided in such instructions.

(L) Except as otherwise specifically provided herein, the Trustee shall have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price or at any other price and any arm's length purchase by the Trustee shall conclusively be deemed fair and reasonable.

(M) All Non-Mortgage Receipts shall be deposited, promptly upon receipt by the Trustee, in the Non-Mortgage Receipts Account. The Trustee shall maintain records sufficient to determine the average daily balance of the amounts on deposit in the Loan Fund and the Bond Reserve Fund and the Debt Service and Expense Account and Redemption Account in the Revenue Fund (referred to in this Section as the "average daily balance"). If so directed by THDA, the Trustee shall maintain such for each Series of Bonds separately.

(N) Not later than each Interest Payment Date, the Trustee shall transfer from the Non-Mortgage Receipts Account to the Debt Service and Expense Account an amount equal to the lesser of (i) the amount needed to enable the Trustee to pay Debt Service on the Bonds on such Interest Payment Date and (ii) the balance then on deposit in the Non-Mortgage Receipts Account. If at any time the amount available prior to any Interest Payment Date shall be insufficient for the making of the transfers provided by this Subsection, then the Trustee shall make transfers to the Debt Service and Expense Account from the Non-Mortgage Receipts Account from the first available Non-Mortgage Receipts received subsequent to such Interest Payment Date and the amount so transferred shall not reduce the amount required to be transferred prior to the next Interest Payment Date.

(O) Any amount remaining in the Non-Mortgage Receipts Account after the transfer to the Debt Service and Expense Account described in paragraph (N) above shall be transferred, at the direction of an Authorized Officer, to the Loan Fund or the Redemption Account.

Section 5.4. Bond Reserve Fund.

(A) If on any Interest Payment Date or Redemption Date for the Bonds the amount in the Revenue Fund and the Redemption Fund, if applicable, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Bond Reserve Fund to the extent necessary to make good the deficiency.

(B) If, concurrently with any allocation from the Revenue Fund pursuant to subsection (B) or (F) or (G) of Section 5.3, the amount on deposit in the Bond Reserve Fund, shall be in excess of the Bond Reserve Fund Requirement, the Trustee may, if so directed in writing by an Authorized Officer of THDA, transfer the amount of such excess to the Redemption Account.

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

(D) It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

ARTICLE VI
REDEMPTION OF BONDS

Section 6.1. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity shall be redeemable, upon notice as provided in this Article, at such times, at such Redemption Prices and upon such other terms as may be specified in this Resolution, in the Bonds and in the respective Supplemental Resolutions authorizing the issuance of such Bonds and authorizing the issuance of Refunding Bonds.

Section 6.2. Redemption at the Election or Direction of THDA; Conditional Notice. In the case of any redemption of Bonds otherwise than as provided in Section 6.3, THDA shall give written notice to the Trustee of its election or direction so to redeem, on the Redemption Date, the principal amounts of the Bonds of such Series and maturities to be redeemed (which Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by THDA in its sole discretion, subject to any limitations with respect thereto as may be provided in a Supplemental Resolution or otherwise contained in or permitted by this Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five days prior to the Redemption Date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 6.5, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise THDA shall, prior to the Redemption Date, pay to the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Redemption Date at the Redemption Price thereof all the Bonds to be redeemed; provided, however, that any election or direction to redeem Bonds may be conditional, and THDA may elect or direct that any notice of redemption given pursuant to Section 6.5 shall be made conditional, upon the deposit with the Paying Agent of such sufficient moneys or other conditions. THDA shall promptly notify the Trustee in writing of all such payments made by THDA to a Paying Agent.

Section 6.3. Redemption Otherwise Than at THDA's Election or Direction. Whenever by the terms of this Resolution, the Trustee is required to redeem Bonds otherwise than at the election or direction of THDA, and subject to and in accordance with the terms of this Article and, to the extent applicable, Article V, the Trustee shall select the Redemption Date of the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents.

Section 6.4. Selection of Bonds to be Redeemed. In the event of redemption of less than all the Outstanding Bonds of like Series, interest rate and maturity, the Trustee shall assign to each such Outstanding fully registered Bond a distinctive number for each \$5,000 of the principal amount thereof so as to distinguish each such \$5,000 from each other portion of the Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection as it shall deem proper in its sole discretion, from the numbers assigned to such Bonds, as many numbers as, at \$5,000 for each number, shall equal the principal amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds bearing the numbers so selected; but only so much of the principal amount of each such fully registered Bond of a denomination or more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the case of Appreciation Bonds, in the event that the Compounded Amount of any such Bond shall be less than \$5,000, the Trustee shall assign a number to such Bond as if the Bond had a principal amount equal to \$5,000 for purposes of this Section. If a Supplemental Resolution provides for a minimum denomination larger (or smaller) than \$5,000, all references in this Section to \$5,000 shall be deemed to refer to such larger (or smaller) minimum denomination. Notwithstanding the foregoing, Bonds that are held by a Central Securities Depository (or beneficial ownership interests in Bonds registered in the name of a Central Securities Depository or its nominee) shall be selected for redemption in accordance with the operational arrangements of such Central Securities Depository.

Section 6.5. Notice of Redemption. When the Trustee shall receive notice from THDA of its election or direction to redeem Bonds pursuant to Section 6.2 and when redemption of Bonds is required by this Resolution pursuant to Section 6.3, the Trustee shall give notice, in the name of THDA, of the redemption of such Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP number of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. In addition, if the notice of redemption is conditional, the notice shall set forth in summary terms, the conditions precedent to such redemption and

that if such conditions shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and such Bonds shall not be redeemed. Such notice shall further state that, assuming the due satisfaction of all conditions precedent to the redemption, if any, on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail such notice, postage prepaid, not less than twenty days (or in such manner or such shorter period as required by the operational arrangements of the Central Securities Depository if all Bonds are registered with a single Central Securities Depository as provided in Section 3.7 hereof) and not more than sixty days before the Redemption Date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but receipt of such notice shall not be a condition precedent to such redemption and failure of a Bondholder to receive such notice shall not affect the validity of the proceedings for the redemption of other Bonds.

Section 6.6. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 6.5 and assuming that all conditions precedent have been satisfied, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, together with, in the case of portions of Bonds, a written instrument of exchange duly executed by the registered owner or his duly authorized attorney. If there shall be drawn for redemption less than the entire principal amount of a Bond, THDA shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the holder, Bonds of like Series and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable.

If any notice of redemption pursuant to Section 6.5 is given specifying that the redemption of the Bonds so called for redemption is made conditional upon the deposit of sufficient moneys to pay the Redemption Price therefor on the Redemption Date and if such moneys sufficient to pay the Redemption Price and accrued interest have not been made available by THDA to the Trustee or the appropriate Paying Agent or Paying Agents on the Redemption Date, such notice of redemption shall be cancelled and be without effect and the Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain Outstanding. The Trustee shall, within two business days after the proposed Redemption Date, give notice, in the manner in which the notice of redemption was given, that such conditions were not satisfied.

ARTICLE VII

PARTICULAR COVENANTS

THDA covenants and agrees with the Trustee and the holders of the Bonds as follows:

Section 7.1. Performance. THDA shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of THDA under the provisions of the Act and this Resolution in accordance with the terms of such provisions.

Section 7.2. Compliance With Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by this Resolution to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed, or will have happened or been performed, and such Bonds, together with all other indebtedness of THDA, shall be within every debt and other limit prescribed by law.

Section 7.3. Power to Issue Bonds and Pledge Revenues, Funds and Other Property. THDA is duly authorized under all applicable laws to authorize and issue the Bonds and to enter into, execute and deliver this Resolution and to pledge the assets and revenues purported to be pledged hereby in the manner and to the extent herein provided. The assets and revenues so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, or with respect thereto prior to, or of equal rank with, the pledge created hereby, and all corporate or other action on the part of THDA to that end has been and will be duly and validly taken. The Bonds and the provisions

of this Resolution are and will be the valid and legally enforceable obligations of THDA in accordance with their terms and the terms of this Resolution. THDA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other assets and revenues, including rights therein pledged under this Resolution, and all the rights of the Bondholders under this Resolution against all claims and demands of all persons whomsoever.

Section 7.4. Payment of Bonds. THDA shall duly and punctually pay or cause to be paid, as herein provided, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any of the Bonds.

Section 7.5. Extension of Payment of Bonds. THDA shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any interest thereon and in the event that the maturity of any of the Bonds or the time for payment of interest thereon shall be extended, such Bonds, shall not be entitled to the benefit of this Resolution or to any payment out of the Funds established pursuant to this Resolution, including the investments, if any, thereof, or out of any assets or revenues pledged hereunder prior to benefits accorded to or the payment of the principal of all Bonds the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extension. Nothing herein shall be deemed to limit the right of THDA to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 7.6. Offices for Servicing Bonds. THDA shall at all times maintain an office or agency where Bonds may be presented for registration, transfer or exchange, and where notices, presentations and demands upon THDA in respect of the Bonds or of this Resolution may be served. The Trustee shall maintain such office or agency for the registration, transfer or exchange of Bonds and for the service of such notices, presentations and demands upon THDA. THDA may appoint one or more additional or other Paying Agents as its respective agents to maintain such offices or agencies for the payment of the Bonds of any particular Series and maturity.

Section 7.7. Further Assurance. At any and all times THDA shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and assets hereby pledged or assigned, or intended so to be, or which THDA may become bound to pledge or assign.

Section 7.8. Waiver of Laws. THDA shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law not or at any time hereafter in force which may affect the covenants and agreements contained in this Resolution or in the Bonds and all benefit or advantage of any such law or laws is hereby expressly waived by THDA.

Section 7.9. Tax Covenants.

(A) Subject to subsection (C) of this Section, THDA shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

(B) THDA shall not permit at any time or times any of the proceeds of the Bonds or any other funds of THDA to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148(a) of the Code.

(C) Notwithstanding the foregoing, THDA hereby reserves right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this Section shall not apply to such Bonds.

Section 7.10. Accounts and Reports.

(A) THDA shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all of its transactions relating to the Program Loans and all Funds established by this Resolution which shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(B) THDA shall annually, within 210 days after the close of each Fiscal Year, file with the Trustee a copy of the financial statements of THDA for such Fiscal Year, setting forth in reasonable detail:

(1) the balance sheet for THDA and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year;

(2) a statement of THDA's revenues and expenses in accordance with the categories or classifications established by THDA for its operating and program purposes and showing the revenues and expenses of the Program during such Fiscal Year; and

(3) a statement of changes in financial position, including changes in financial position of the Program, as of the end of such Fiscal Year.

The financial statements shall be accompanied by the Certificate of an Accountant stating that the financial statements examined present fairly the financial position of THDA at the end of the Fiscal Year, the results of its operations and the changes in financial position for the period examined, in conformity with generally accepted accounting principles.

(C) If at any time during any Fiscal Year there shall have occurred an Event of Default, then THDA shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Fund hereunder.

(D) Any such financial statements may be presented on a consolidated or combined basis with other reports of THDA, but only to the extent that such basis of reporting shall be consistent with that required under subsection (B) of this Section.

(E) A copy of each annual Projected Cash Flow Statement prepared in accordance with Section 7.11 hereof and any special report filed pursuant to subsection (C) of this Section and any Accountant's Certificate relating thereto shall be mailed promptly thereafter by THDA to each Bondholder who shall have filed his name and address with THDA for such purposes.

Section 7.11. Periodic Delivery of Projected Cash Flow Statement.

(A) THDA shall file a Projected Cash Flow Statement with the Trustee (i) whenever Bonds are issued pursuant to Section 2.6, (ii) on or within thirty (30) days after THDA's filing of its financial statements as provided in Section 7.10(B), if a Projected Cash Flow Statement has not been filed within the prior year and (iii) at such other times as required by this Resolution or as may be required by a Supplemental Resolution.

(B) A Projected Cash Flow Statement shall set forth projected Revenues, Program Expenses and interest payments and Principal Installments for each year during which Bonds will be Outstanding based upon the reasonable expectations of THDA at the time such Certificate is filed. A Projected Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon THDA's reasonable expectations at the time such Projected Cash Flow Statement is filed. The listing of Revenues from Program Loans and Investment Securities shall be supported by a schedule identifying the Program Loans and Investment Securities by maturity and interest rate, including Program Loans expected to be financed with amounts in the Loan Fund.

(C) A Projected Cash Flow Statement shall be considered to comply with this subsection if such Statement shows that (i) the estimated Revenues for each annual period in which Bonds will be Outstanding, together with any amount scheduled to be withdrawn from the Bond Reserve Fund (and permitted to be so withdrawn pursuant to this Resolution), will be sufficient for the payment of the estimated Debt Service and Program Expenses for such annual period, and (ii) the total assets (consisting of cash and investments, valued as provided herein, and the principal balance of Program Loans) held hereunder equal to or exceed the total liabilities of all Bonds Outstanding hereunder for each such annual period.

Section 7.12. The Program.

(A) THDA shall from time to time with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Resolution and sound banking practices and principles, (i) use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program,

to finance Program Loans pursuant to the Act and this Resolution, (ii) do all such acts and things as shall be necessary to receive and collect Revenues (including diligent enforcement of the prompt collection of all arrears on Program Loans and, if not inconsistent with sound banking practices and principles, consent to modification of repayment terms of the Program Loans), sufficient to pay the expenses of the Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of THDA to protect its rights with respect to or to maintain any insurance on Program Loans and to enforce all terms, covenants and conditions of Program Loans including the collection, custody and prompt application of all escrow payments required by the terms of a Program Loan for the purposes for which they were made.

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

(C) THDA may at any time sell, assign or otherwise dispose of a Program Loan (or the premises to which such Program Loan related) or a Program Security:

(1) in the case of a Program Loan, in the event that payment under such Program Loan is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Loan or premises;

(2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds the debt service on which is equivalent to the payments on the Program Loan; or

(3) a Projected Cash Flow Statement shall be filed with the Trustee which gives effect to the proposed sale thereof and complies with the conditions set forth in subsection 7.11(C).

Section 7.13. Personnel and Servicing of Programs.

(A) THDA shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Act and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by THDA shall be qualified for their respective positions.

(B) THDA may pay to any agency, municipality, political subdivision or governmental instrumentality of the State such amounts as are necessary to reimburse such agency, municipality, political subdivision or governmental instrumentality of the State for the reasonable costs of any services performed for THDA.

(C) THDA shall duly and properly service all Program Loans and enforce the payment and collection of all payments of principal and interest and all Escrow Payments or shall cause such servicing and/or enforcing to be done by a servicer evidencing, in the judgment of THDA, the capability and experience necessary to adequately service Program Loans. Each such servicer shall enter into a servicing agreement providing that:

(1) all amounts received by such servicer, except as compensation for its services, shall be promptly transferred to the Trustee subject to and in accordance with the provisions of this Resolution;

(2) such servicer shall at all times remain qualified to act as such pursuant to such standards as THDA shall prescribe from time to time and shall determine to be reasonable to maintain the security for the Bonds;

(3) such servicer shall agree to maintain servicing facilities that are staffed with trained personnel to adequately service Program Loans in accordance with standards normally employed by private institutional mortgage investors, as determined in THDA's sole discretion, and shall maintain individual files for each Program Loan serviced pursuant to the servicing agreement and provide regular reports to THDA as to collections and delinquencies with respect to all Program Loans serviced by such servicer.

Section 7.14. Issuance of Additional Obligations.

(A) THDA shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which, except as provided in Section 5.1(C) hereof, will be secured by a superior or equal charge and lien on the revenues and assets pledged hereunder, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds under this Resolution on a parity with the Bonds of such initial Series of Bonds and secured, except as provided in Section 5.1(C) hereof, by an equal charge and lien on the revenues and assets pledged hereunder and payable equally therefrom for one or more of the purposes set forth in Section 2.4.

(B) No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under this Resolution unless an Authorized Officer shall have certified that:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) upon the issuance and delivery of such additional Bonds, the amount credited to the Bond Reserve Fund is at least equal to the Bond Reserve Fund Requirement, as valued not more than five (5) Business Days prior to the date of issuance of such additional Bonds;

(3) the provisions of Section 2.6 or, in the case of Refunding Bonds, Section 2.7 shall have been complied with as of the date of delivery of such Series;

(4) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, THDA shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Resolution; and

(5) upon the issuance of such Series and application of the proceeds thereof in accordance with Article IV hereof, the amount of Program Loans and Investment Securities credited to all Funds and Accounts hereunder, other than the Redemption Account, when valued in accordance with this Resolution, will be equal to the principal amount of Outstanding Bonds, including the Bonds thereupon being issued.

(C) THDA hereby expressly reserves the right to enter into or adopt one or more additional indentures or resolutions for its purposes, including the purposes of the Program, and reserves the right to issue other obligations for such purposes.

Section 7.15. Bond Reserve Fund.

(A) THDA shall at all times maintain the Bond Reserve Fund created and established by Section 5.1 and do and perform or cause to be done and performed each and every act and thing with respect to the Bond Reserve Fund provided to be done or performed by or on behalf of THDA or the Trustee or the Paying Agents under the terms and provisions of Article V hereof. It is hereby expressly provided that the Bond Reserve Fund shall not constitute a "debt service reserve fund" within the meaning of Section 13-23-122(a) of the Act or any similar successor provision and there shall be no obligation, moral or otherwise, on the part of the State to apportion any funds to maintain the Bond Reserve Fund.

(B) Notwithstanding any other provisions of this Resolution the Trustee shall not permit amounts to be withdrawn from the Bond Reserve Fund other than pursuant to subsection 5.4(A) unless there shall have been filed with the Trustee a Certificate of an Authorized Officer stating that such amounts are not required to be retained therein to provide funds for the payment of Principal Installments or interest on Outstanding Bonds when due.

Section 7.16. Assignment of Program Loans Upon Default. Upon the happening of an Event of Default specified in Section 10.2 and at the written request of the Trustee or of the holders of not less than 25% in principal amount of the Outstanding Bonds, THDA shall deliver the Program Loans to the Trustee and take any other steps requested by the Trustee or such Bondholders in order to further effectuate the assignment of all of the Program Loans to the Trustee. If, however, the Trustee and the Bondholders are restored to their positions in accordance with Section 10.4, the Trustee shall assign such Program Loans back to THDA.

ARTICLE VIII
SUPPLEMENTAL RESOLUTIONS

Section 8.1. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of THDA may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (1) to close this Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in this Resolution on the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) to add to the covenants and agreements of THDA in this Resolution other covenants and agreements to be observed by THDA which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (3) to add to the limitations and restrictions in this Resolution other limitations and restrictions to be observed by THDA which are not contrary to or inconsistent with this Resolution as thereupon in effect;
- (4) to surrender any right, power or privilege reserved to or conferred upon THDA by the terms of this Resolution, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of THDA contained in this Resolution;
- (5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of the Revenues and Non-Mortgage Receipts or of any other revenues or assets;
- (6) to accommodate the conversion of the Program to the purchase of Program Securities in addition to or in lieu of Program Loans;
- (7) to modify any of the provisions of this Resolution in any respect whatever, but only if either (i) such modification shall not materially adversely affect the interest of the Bondholders (as to any change relating to security for the Bonds, evidence that such change, at the time of such change, will not, in and of itself, impair, or cause the Bonds to fail to retain, the then-existing rating(s) assigned to them by the Rating Agencies, shall constitute sufficient evidence that such change does not materially adversely affect the interest of the Bondholders) or (ii) such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding; or and, with respect to (ii) above, such modification is disclosed in any offering documents of THDA for Bonds issued subsequent to the date of adoption of the Supplemental Resolution; or
- (8) to authorize the issuance of additional Series of Bonds and to prescribe the terms and conditions thereof and any additional terms and conditions upon which such Bonds may be issued.

Section 8.2. Supplemental Resolutions Effective Upon Consent of Trustee.

(A) For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Trustee and THDA of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or
- (2) to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable and are not contrary to or inconsistent with this Resolution as theretofore in effect; or
- (3) to provide for additional duties of the Trustee in connection with the Program Loans.

(B) Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1, and in that event, the consent of the Trustee required by this Section shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in subsection (A) of this Section.

Section 8.3. Supplemental Resolutions Effective Upon Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article IX. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee a copy thereof certified by an Authorized Officer and upon compliance with the provisions of Article IX.

Section 8.4. General Provisions.

(A) This Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article and Article IX. Nothing in this Article or Article IX contained shall affect or limit the right or obligation of THDA to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.7 or the right or obligation of THDA to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to this Resolution.

(B) Any Supplemental Resolution permitted or authorized by Section 8.1 or 8.2 may be adopted by THDA without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution filed with the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of this Resolution, is authorized or permitted by this Resolution, and is valid and binding upon THDA.

(C) The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Section 8.1, 8.2 or 8.3 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of this Resolution.

(D) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE IX AMENDMENTS

Section 9.1. Mailing and Publication of Notice of Amendment. Any provision in this Article for the mailing of a notice to Bondholders shall be fully complied with if it is mailed postage prepaid (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of THDA and (ii) to the Trustee.

Section 9.2. Powers of Amendment. Any modification of or amendment to this Resolution and of the rights and obligations of THDA and of the holders of the Bonds hereunder, in any particular, may be made by a Supplemental Resolution, but only, in the event such Supplemental Resolution shall be adopted pursuant to Section 8.3, with the written consent given as provided in Section 9.3, (i) of the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof in the rate of interest thereon without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its

written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Resolution if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment hereof and any such determination shall be binding and conclusive on THDA and all holders of Bonds.

Section 9.3. Consent of Bondholders.

(A) A copy of any Supplemental Resolution making a modification or amendment which is not permitted by the provisions of Section 8.1 or 8.2 (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed, by first class mail postage prepaid, by THDA to the holders of any registered Bond. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of holders of the percentages of Outstanding Bonds specified in Section 9.2 and (b) a Bond Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted by THDA in accordance with the provisions of this Resolution, is authorized or permitted hereby and is valid and binding upon THDA and enforceable in accordance with its terms.

(B) The consent of a Bondholder to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 11.14. A Certificate by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with such Section 11.14 shall be conclusive that the consents have been given by the holders of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the holder of the Bonds giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent holder thereof has notice thereof) unless such consent is revoked in writing by the holder of such Bonds giving such consent or a subsequent holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter provided for in this Section is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 11.14. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee.

(C) At any time after the holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with THDA and the Trustee a written statement that the holders of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by THDA on a stated date, a copy of which is on file with the Trustee) has been consented to by the holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by THDA by mailing such notice to the Bondholders, first class mail, postage prepaid, (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this Section). THDA shall file with the Trustee proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon THDA, the Fiduciaries and the holders of all Bonds at the expiration of forty days after the filing with the Trustee of the proof of the first mailing of the notice of such consent, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such forty day period, except that any Fiduciary and THDA during such forty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 9.4. Modifications by Unanimous Consent. The terms and provisions of this Resolution and the rights and obligations of THDA and of the holders of the Bonds hereunder may be modified or amended in any respect upon the adoption and filing by THDA of a Supplemental Resolution and the consent of the holders of all the Bonds then Outstanding, such consent to be given as provided in Section 9.3, but no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders. No notice of any such modification or amendment to Bondholders either by mailing or publication shall be required.

Section 9.5. Exclusion of Bonds. Bonds owned or held by or for the account of THDA shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and THDA shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, THDA shall furnish the Trustee a Certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 9.6. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in Article VIII or this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by THDA and the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If THDA or the Trustee shall so determine, new Bonds modified to conform to such action in the opinion of the Trustee and THDA shall be prepared, executed, authenticated and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same maturity, then Outstanding, upon surrender of such Bonds. All Bonds surrendered in such an exchange shall be cancelled by the Trustee.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.1. Events of Default. Each of the following events is hereby declared an "Event of Default":

(1) payment of the principal of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise shall not be made when and as the same shall become due; or

(2) payment of any installment of interest on any of the Bonds shall not be made within thirty days after the same shall become due; or

(3) THDA shall fail or refuse to comply with the provisions of this Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained herein or in any Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

Section 10.2. Remedies.

(A) Upon the happening and continuance of any Event of Default specified in paragraphs (1) and (2) of Section 10.1 the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (3) of Section 10.1 the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to acceleration of the Bonds pursuant to clause (5) below) shall proceed, in its own name, subject to the provisions of Section 11.3, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require THDA to receive and collect Revenues and Non-Mortgage Receipts adequate to carry out the covenants and agreements as to, and the assignment of, the Program Loans and to require THDA to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require THDA to account as if it were the trustee of an express trust for holders of the Bonds;

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds;

(5) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or

(6) in the event that all Bonds are declared due and payable, by selling Program Loans and Investment Securities.

(B) In the enforcement of any rights and remedies under this Resolution, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from THDA for principal, Redemption Price, interest or otherwise, under any provisions of this Resolution or a Supplemental Resolution or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against THDA for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bondholders under this Resolution, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and Non-Mortgage Receipts and of the assets of THDA relating to the Program, pending such proceedings, with such powers as the court making such appointment shall confer.

(D) Except upon the occurrence and during the continuance of an Event of Default hereunder, THDA hereby expressly reserves and retains the privilege to receive and, subject to the terms and provisions of this Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Program Loans and the proceeds and collections therefrom, and neither the Trustee nor any Bondholder shall in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

Section 10.3. Priority of Payments After Default.

(A) In the event that upon the happening and continuance of any Event of Default the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other amounts received or collected by the Trustee acting pursuant to the Act and this Article, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied, subject to Section 10.11, hereof as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

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

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

(2) If the principal of all of the Bonds shall become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of

principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(B) Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to THDA, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 10.4. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case THDA, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 10.5. Bondholders' Direction of Proceedings. Anything in this Resolution to the contrary notwithstanding, the holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Resolution, and that the Trustee shall have the right to decline to follow such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Section 10.6. Limitation on Rights of Bondholders.

(A) No holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the holders of not less than 25% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under this Resolution or for any other remedy hereunder or by law. It is understood and intended that no one or more holders of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Resolution, or to enforce any right hereunder or under law with respect to the Bonds or this Resolution, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of the Outstanding Bonds. Nothing contained in this Article shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of THDA to pay the principal of and interest on each Bond issued hereunder to the holder thereof at the time and place in said Bond expressed.

(B) Anything to the contrary notwithstanding contained in this Section, or any other provision of this Resolution, each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party

litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs including reasonable pre-trial, trial and appellate attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least 25% in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of any Bond on or after the respective due date thereof expressed in such Bond.

Section 10.7. Possession of Bonds by Trustee Not Required. All rights of action under this Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the holders of such Bonds, subject to the provisions of this Resolution.

Section 10.8. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 10.9. No Waiver of Default. No delay or omission of the Trustee or of any holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein and every power and remedy given by this Resolution to the Trustee and the holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. Notice of Event of Default. The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of or Redemption Price, if any, or interest on any of the Bonds, or in the making of any payment required to be made into the Loan Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Bondholders. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof: (i) to all registered holders of Bonds, as the names and addresses of such holders appear upon the books for registration and transfer of Bonds as kept by the Trustee and, (ii) to such other persons as is required by law.

ARTICLE XI

CONCERNING THE FIDUCIARIES

Section 11.1. Appointment and Acceptance of Duties of Trustee.

(A) The Bond Finance Committee of THDA has been delegated the responsibility for choosing the initial Trustee pursuant to this Resolution. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing a written acceptance of its obligations under this Resolution.

(B) The Trustee is hereby vested with all of the rights, powers and duties of a Trustee permitted to be appointed by Bondholders pursuant to the Act and the right of Bondholders to appoint a trustee pursuant to the Act is hereby abrogated as permitted by the Act.

Section 11.2. Appointment and Acceptance of Duties of Paying Agents.

(A) THDA shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 11.13 for a successor Paying Agent. The Trustee is hereby appointed as a Paying Agent.

(B) Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by a written instrument of acceptance executed and delivered to THDA and the Trustee.

(C) The principal or corporate trust offices of the Paying Agents are hereby designated as the respective agencies of THDA for the payment of the Bonds.

Section 11.3. Responsibility of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of THDA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Resolution or of any Bonds issued hereunder or in respect of the security afforded by this Resolution, and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representations contained in its certificate on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to THDA. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or default. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 11.4. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may be of counsel to THDA, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its sole discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Neither the Trustee nor any successor Trustee shall be liable to THDA, the holders of any of the Bonds or any other person for any act or omission done or omitted to be done by such Trustee in reliance upon any instruction, direction or certification received by the Trustee pursuant to this Resolution or for any act or omission done or omitted in good faith and without willful or reckless misconduct. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by THDA to any Fiduciary shall be sufficiently executed if executed in the name of THDA by an Authorized Officer.

Section 11.5. Compensation. THDA shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees (whether or not litigation ensued and, if so, fees on trial and any appeal therefrom) and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Resolution. THDA further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default.

Section 11.6. Permitted Acts and Functions. Any Fiduciary may become the owner of any Bonds issued hereunder with the same rights it would have if it were not a Fiduciary. Any Fiduciary may permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may participate as a lender under the Program and may sell Program Loans to THDA. Except as otherwise provided by THDA, no Fiduciary may act as an underwriter with respect to the issuance of any Bonds.

Section 11.7. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Resolution by giving not less than sixty days' written notice to THDA, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 11.9, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 11.8. Removal of Trustee. The Trustee shall be removed by THDA if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and THDA and signed by the holders of a majority

in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of THDA. THDA may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of THDA by filing with the Trustee an instrument signed by an Authorized Officer.

Section 11.9. Appointment of Successor Trustee.

(A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, THDA covenants and agrees that it will thereupon appoint a successor Trustee.

(B) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five days after the Trustee shall have given to THDA written notice, as provided in Section 11.7, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the State, having a capital, surplus and undivided profits aggregating at least \$100,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

Section 11.10. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to THDA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the request of THDA, or of its successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from THDA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by THDA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee. Upon the effectiveness of the resignation or removal of the Trustee, such Trustee's authority to act pursuant to this Resolution shall terminate and such Trustee shall have no further responsibility or liability whatsoever for performance of this Resolution as Trustee.

Section 11.11. Merger, Consolidation or Sale. Any company into which any Fiduciary or its trust department may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 11.9 or Section 11.13 and shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11.12. Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated, and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in this Resolution provided that the certificate of authentication of the Trustee shall have.

Section 11.13. Resignation or Removal of the Paying Agent and Appointment of Successor.

(A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Resolution by giving at least sixty days' written notice to THDA and Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent, and the Trustee and signed by an Authorized Officer. Any successor Paying Agent shall be appointed by THDA and (subject to the requirements of Section 7.6) shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office of Paying Agent, on reasonable and customary terms acceptable to THDA and authorized by law to perform all the duties imposed upon it by this Resolution.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 11.14. Evidence of Signatures of Bondholders and Ownership of Bonds.

(A) Any request, consent or other instrument which this Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Resolution (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may nevertheless in its sole discretion require further or other proof in cases where it deems the same desirable:

(1) the fact and date of the execution by any Bondholder or his attorney of such instrument may be proved by the Certificate, which need not be acknowledged or verified, of an officer of a bank or trust company, financial institution or other member of the National Association of Securities Dealers, Inc. satisfactory to the Trustee, or of any notary public or other officer authorized to take acknowledgements of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary; and

(2) the amount of Bonds transferable by delivery held by any person executing such request or other instrument as a Bondholder, and the numbers and other identification thereof, and the date of his holding such Bonds, may be proved by a Certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by an officer of a trust company, bank, financial institution or other depository or member of the National Association of Securities Dealers, Inc. wherever situated, showing that at the date therein mentioned such person exhibited to such officer or had on deposit with such depository the Bonds described in such Certificate. Continued ownership after the date stated in such Certificate may be proved by the presentation of such Certificate if the Certificate contains a statement by such officer that the depository held the Bonds therein referred to on the date of the Certificate and that they will not be surrendered without the surrender of the Certificate to the depository, except with the consent of the Trustee, and a Certificate of the Trustee, which need not be acknowledged or verified, that such consent has not been given.

(B) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(C) Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by THDA or any Fiduciary in accordance therewith.

Section 11.15. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of this Resolution or any Supplemental Resolution (or microfilm, microcard or similar photographic or scanned reproduction thereof) shall be retained in its possession and shall be subject at all reasonable times to the inspection of THDA, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

ARTICLE XII
DEFEASANCE
MISCELLANEOUS PROVISIONS

Section 12.1. Defeasance.

(A) If THDA shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of any Revenues and other moneys, securities, funds and property hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Trustee shall, upon the request of THDA, execute and deliver to THDA all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to THDA all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. If THDA shall pay or cause to be paid, or there shall otherwise be paid, to the holders of any Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of THDA to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

(B) Bonds and interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by THDA of funds for such payment or redemption or otherwise) shall, at the maturity or upon the date upon which such Bonds have been duly called for redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section. Outstanding Bonds of any Series shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, THDA shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article VI notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty days, THDA shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, of and interest on such Bonds; but any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to THDA, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities mean and include only direct and general obligations of the State or obligations guaranteed by the State or such obligations as are described in clause (1) of the definition of Investment Securities herein.

(C) If, through the deposit of moneys by THDA or otherwise, the Fiduciaries shall hold, pursuant to this Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which THDA shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of THDA all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or the redemption of such Outstanding Bonds. If all or a portion of the moneys made available to pay the principal of and interest on Outstanding Bonds at maturity or prior redemption shall have been derived from the issuance of refunding obligations of THDA, upon the written direction of THDA, the Fiduciaries shall reallocate or transfer all moneys, securities, Program Loans or Program Securities as shall be required by operation of the transferred proceeds provisions of the Code.

(D) Anything in this Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for five years (or such other period of time required by abandoned property laws of the State) after the date when all of such principal or interest, as the case may be, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years (or such other period of time required by abandoned property laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Bonds became due and payable, shall, to the extent required by State law, be paid by the Fiduciary to the State Treasurer or other appropriate official free from trust, and otherwise at the written request of THDA, be repaid by the Fiduciary to THDA, as its absolute property and free from trust, and, in either such case, the Fiduciary shall thereupon be released and discharged.

Section 12.2. Notice by Electronic Means. Any notice, direction or other communication given hereunder from THDA to the Rating Agencies or any Fiduciary or from any Fiduciary to THDA or the Rating Agencies, may be given by sending it via e-mail or other electronic means in lieu of regular mail. In the case of e-mail or other electronic means, valid notice shall only have been deemed to have been given when an electronic confirmation or delivery has been obtained by the sender at the e-mail or other electronic address provided by each party, as updated from time to time. Any e-mail communication shall be deemed to have been validly and effectively given on the date of such communication, if such date is a business day and such delivery was made prior to 4:00 p.m., Central Time, and otherwise on the next business day.

Section 12.3. Notices to Rating Agencies. To the extent not otherwise provided herein, the Trustee shall provide written notice to the Rating Agencies of any of the following occurrences: (i) the defeasance or discharge of this Resolution within the meaning of Section 12.1 hereof, (ii) the downgrade of the provider of any Investment Security described in paragraph (3) or (7) of the definition thereof below the rating requirement included in such paragraphs and the substitution of any provider thereof; (iii) the resignation or removal of the Trustee, (iv) the appointment of a successor Trustee, and (v) any amendment of this Resolution or any Supplemental Resolution.

Section 12.4. No Recourse Under Resolution or on Bonds. All covenants, stipulations, promises, agreements and obligations of THDA contained in this Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of THDA and not of any officer or employee of THDA in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Resolution against any member, officer or employee of THDA or any natural person executing the Bonds.

Section 12.5. Security Instrument. A certified copy of this Resolution, delivered to and accepted by the Trustee, shall constitute a security agreement pursuant to and for all purposes of the Uniform Commercial Code of the State of Tennessee.

Section 12.6. Effective Date. This Resolution shall take effect immediately.

OTHER THDA FINANCINGS, THDA FUNDS AND THDA ACTIVITIES

Other Financings

General Housing Finance Resolution (the "2009 General Resolution")

THDA has issued bonds in the initial aggregate principal amount of \$663,850,000 under the 2009 General Resolution which were outstanding as shown on the table below after giving effect to releases from escrow and conversion, redemptions and regularly scheduled payments of principal and accretion of interest:

Amount

<u>Issue of Bonds</u>	<u>Issue/Release Date</u>	<u>Issued</u>	<u>Released from Escrow/Converted</u>	<u>Outstanding as of September 30, 2019 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2009-A1	December 23, 2009	\$ 100,000,000	\$ --	\$ 1,130,000	3.96%
2010-B/ 2009-B, Subseries B-2 ⁽²⁾	November 10, 2011	40,000,000	60,000,000	32,955,000 ⁽²⁾	3.15
2011-A	April 14, 2011	40,000,000	60,000,000	9,180,000	3.70
2011-B/ 2009-B, Subseries B-4	August 25, 2011	40,000,000	60,000,000	38,820,000	3.01
2011-C/ 2009-B, Subseries B-5	November 3, 2011	65,290,000	34,710,000	33,855,000	3.01
2015-A	May 28, 2015	163,850,000	--	83,445,000	2.78
TOTAL		<u>\$ 449,140,000</u>	<u>\$ 214,710,000</u>	<u>\$ 199,385,000</u>	

(1) Bond yield.

(2) To be refunded with proceeds of Issue 2019-4.

As of September 30, 2019 (unaudited), 2,325 mortgage loans in the approximate aggregate principal amount of \$188,672,512 were outstanding under the 2009 General Resolution.

THDA may, in the future, elect to issue new bonds under the 2009 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 2009 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for the general purposes of THDA only as provided in the 2009 General Resolution.

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General Homeownership Program Bond Resolution (the “1985 General Resolution”)

Bonds outstanding under the 1985 General Resolution were issued in the total principal amount of \$492,690,000 and were outstanding as shown on the table below:

<u>Issue of Bonds</u>	<u>Dated</u>	<u>Issued</u>	<u>Outstanding as of September 30, 2019 (unaudited)</u>	<u>Original Net Interest Cost⁽¹⁾</u>
2010-1	October 13, 2010	120,700,000	\$ 24,140,000	3.57
2011-1	December 1, 2011	141,255,000	35,180,000	3.80
2012-1	July 19, 2012	133,110,000	47,860,000	3.26
2012-2	November 15, 2012	97,625,000	38,235,000	2.92
TOTAL		<u>\$ 492,690,000</u>	<u>\$ 145,415,000</u>	

(1) Bond yield.

As of September 30, 2019 (unaudited), 3,936 mortgage loans in the approximate aggregate principal amount of \$176,846,118 were outstanding under the 1985 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1985 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1985 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1985 General Resolution.

Housing Bond Resolution (Mortgage Finance Program) (the “1974 General Resolution”)

All bonds then outstanding under the 1974 General Resolution were refunded by the Issue 2013-1 Bonds issued under the General Resolution. All assets relating to bond proceeds, including mortgage loans, cash, and investments valued as of June 30, 2014, then remaining under the 1974 General Resolution were transferred to the General Resolution. Certain assets and investments not related to bond proceeds remain in the General Fund of the 1974 General Resolution.

THDA may, in the future, elect to issue new bonds under the 1974 General Resolution. The mortgage loans and investments financed with the proceeds of any new bonds issued under the 1974 General Resolution and the revenues therefrom will be pledged to the payment of such bonds (and will not be pledged to the payment of the Bonds, including the Offered Bonds) and will be available for general purposes of THDA only as provided in the 1974 General Resolution.

Mortgage Credit Certificates

THDA has established a mortgage credit certificate program that began on June 1, 2016. THDA established eligibility requirements for the mortgage credit certificate program and loans assisted with a mortgage credit certificate may not be funded with proceeds of qualified mortgage bonds such as the Issue 2019-4 Bonds. While it is possible that the availability of the mortgage credit certificate program will reduce demand for THDA Great Start or Great Start Plus loans, THDA has established its mortgage credit certificate program with requirements designed to help mitigate such an impact.

Other Information

The State Treasurer is the treasurer of THDA and is the custodian of the assets of THDA, except for those assets required to be in the custody of the Trustee pursuant to the provisions of the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt. The Board of Directors of THDA has adopted an investment policy for THDA assets. These assets are invested only in investments authorized by the Act, THDA's investment policy, the General Resolution, the 2009 General Resolution, the 1985 General Resolution, the 1974 General Resolution or any other resolution THDA may adopt, and by the Treasurer. The Treasurer has delegated all duties and responsibilities in connection with THDA's investment of THDA assets to the Executive Director of THDA. For information related to THDA's investment of assets held under the General Resolution, see FINANCIAL SUMMARY OF RESIDENTIAL FINANCE PROGRAM—Investments.

BOOK-ENTRY-ONLY SYSTEM

THE FOLLOWING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THDA BELIEVES TO BE RELIABLE, BUT THDA TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THDA NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT OR INDIRECT PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR BY ANY DTC DIRECT OR INDIRECT PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

NEITHER THDA, NOR THE TRUSTEE, REGISTRAR OR PAYING AGENT, NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS), WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to THDA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the Trustee or THDA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Trustee or THDA. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.
10. THDA may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

RESIDENTIAL FINANCE PROGRAM LOAN ORIGINATING AND SERVICING PROCEDURES

General

The General Resolution provides that Program Loans to be financed with moneys made available from the issuance of a series of Bonds shall satisfy any restrictions or covenants applicable to such Program Loans as shall be set forth in the related Supplemental Resolution. Nothing in the General Resolution requires that Program Loans be insured or guaranteed or that Program Loans be first lien loans. No assurance can be provided that Supplemental Resolutions adopted for future series of Bonds will not authorize the finance of Program Loans secured by subordinate liens, including without limitation, loans for downpayment and closing cost assistance and home improvement loans.

All Program Loans, or participations therein, to be financed with lendable proceeds of the Offered Bonds will be made in accordance with the Program Loan Procedures described below. The Issue 2019-4 Supplemental Resolution provides that the Program Loans to be financed with proceeds of Bonds shall be first lien loans (i) insured or guaranteed or have a commitment for insurance or guarantee by (a) the United States or any instrumentality thereof, (b) a private mortgage insurer qualified to issue such insurance or guarantee in the State and approved by THDA (for a description of certain mortgage insurance programs, including certain conditions on recovery and limitations on coverage, see Appendix B) or (c) any agency or instrumentality of the State authorized by law to issue such insurance; or (ii) made to borrowers who have an equity interest of at least 22% in the property based on the lesser of appraised value or the sale price and will be secured by a first lien on a fee simple or leasehold estate in real property located in the State.

Income and Acquisition Cost Limits

THDA limits the maximum gross annual household income for eligible borrowers and the maximum acquisition cost for homes financed by Program Loans in accordance with Section 143 of the Internal Revenue Code of 1986, as amended, and applicable regulations promulgated thereunder (the "Code"). The limits vary from county to county and are periodically adjusted.

Effective as of May 27, 2019, THDA income limits will range from \$64,500 to \$112,000 depending on household size and geographic location. THDA's income limits are equal to or less than the safe-harbor income limits established under the Code.

THDA's acquisition cost limits are either within the safe-harbor limitations established under the Code or are established, based on procedures in the Code, using THDA's actual data which justifies a higher limit. THDA's current maximum acquisition cost limits range from \$250,000 to \$375,000 depending on geographic location. THDA acquisition cost limits are equal to or less than the safe-harbor acquisition cost limits established under the Code.

THDA has in the past and may, at any time, further restrict or otherwise modify income and acquisition cost limits for certain specialized Program Loans THDA may elect to finance.

Loan Origination

THDA's Program Loans are originated by certain financial institutions located throughout the State who are approved by THDA to originate Program Loans in its behalf ("Originating Agents"). THDA may purchase Program Loans once they are closed by the Originating Agent or THDA may offer funds to Originating Agents on a "first-come, first-serve" basis prior to the closings of Program Loans. Originating Agents may charge borrowers a fee, up to 2% of the Program Loan amount, for originating Program Loans. The Originating Agents who may originate Program Loans from Bond proceeds include mortgage banking firms, commercial banks, and credit unions. The lendable proceeds of the Bonds are made available throughout the State. See Appendix C for a description of THDA's Working Agreement with Originating Agents and Guide for Originating Agents.

THDA will set aside a portion of the lendable proceeds of an issue of Bonds to make Targeted Area loans for one year as necessary to comply with Section 143(j) of the Code. In the event any of the amounts so reserved by THDA for Targeted Areas remain at the end of the time period specified by the Code, THDA will offer such funds to its Originating Agents on a "first-come, first-serve" basis.

Requirements Imposed by the Code

Interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes only if certain requirements are met, including (i) eligibility requirements for Program Loans and borrowers (see "Mortgage Eligibility Requirements" below), (ii) yield and investment requirements (see "Requirements Related to Arbitrage" below), and (iii) certain other requirements related to the Bonds and the use of proceeds of the Bonds, that are also imposed by the Code.

Covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In addition, covenants in the Resolution obligate THDA to do and perform all acts and things permitted by law and necessary or desirable to comply with federal tax law and for such purpose, to adopt and maintain appropriate procedures. To comply with these covenants, THDA periodically reviews and modifies its procedures for Originating Agents and Servicers to the extent necessary to operate its single-family mortgage programs in compliance with federal tax law and has established procedures under which such requirements can be met. Such procedures include monitoring the Program Loan applications to be financed with Bond proceeds to ensure compliance with applicable acquisition cost and income limitations. THDA believes that the procedures established are sufficient to ensure that the Bonds will satisfy the requirements of the Code. In the opinion of Bond Counsel, the Guide for Originating Agents, the Guide for Servicers and the Resolution establish procedures under which, if followed, the requirements of applicable federal tax law can be met.

Mortgage Eligibility Requirements -- The Code requires that Program Loans financed with the proceeds of the Bonds meet certain mortgage eligibility requirements. THDA must, among other things, reasonably expect at the time each Program Loan is made that the borrower will make the residence financed by the Program Loan the borrower's principal residence within a reasonable time after the financing is provided. Under the procedures which THDA has established, the borrower must certify, at the closing of the Program Loan, that the borrower intends to make the financed residence the borrower's principal residence within sixty days, which is within the period considered reasonable under the Code.

In general, except with respect to Program Loans made in Targeted Areas and Program Loans made to qualified veterans, borrowers are not permitted to have had a present ownership interest in their principal residence during the three-year period prior to the date on which the Program Loan is closed. THDA will, in cases where the prior ownership limitation applies, require the borrower (i) to provide the most recent federal income tax return and (ii) to certify at the closing of the Program Loan that the borrower has not had a present ownership interest in a principal residence within the preceding three years. In addition, THDA will obtain credit reports for each borrower to determine prior ownership of a principal residence by the borrower.

THDA has established maximum acquisition costs for residences financed with proceeds of Bonds and maximum household income limits, all as permitted by the Code. From time to time, THDA may revise the maximum acquisition cost and the income limits, but in no event will THDA's acquisition cost limits or income limits exceed limits established as permitted under the Code. THDA requires the borrower to certify household income in connection with applying the income limits and requires the borrower and the seller to certify the acquisition cost of the financed residence. In addition, the Originating Agent is required to review the affidavits of the borrower and the seller and to determine that the Code requirements with respect to acquisition cost limits and income limits are met.

An existing Program Loan or any other existing loan may not be acquired or replaced with proceeds of a Program Loan except for certain initial temporary financing not exceeding a term of 24 months. THDA requires a borrower to certify, at the closing of a Program Loan, that the proceeds of the Program Loan will not be used to acquire or replace an existing loan. In addition, the Originating Agent is required to review the borrower's federal income tax returns for the preceding year (unless the borrower is not required to file such returns) and a credit report prior to closing to determine if the borrower has any outstanding loans which may have been acquired or replaced with proceeds of the Program Loan.

Program Loans cannot be assumed unless the principal residence, prior home ownership, income and acquisition cost requirements are met at the time of assumption. THDA requires that each of its Program Loans have a "due on sale" clause so that THDA may accelerate the Program Loan if it is assumed and all such requirements are not met. The FHA and VA allow a "due on sale" clause in their respective guaranteed Program Loan programs, provided that the borrower is fully informed and consents in writing to such requirements.

Under the Code, an issue of Bonds is treated as meeting the mortgage eligibility requirements if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the lendable proceeds of the issue used to make Program Loans was devoted to finance residences which met all such mortgage eligibility requirements at the time the loans were executed or assumed. In determining whether 95% of the proceeds have been so used, THDA relies on an affidavit of the borrower (the "Borrower Affidavit") and of the seller (the "Seller Affidavit") and on examination of copies of the borrower's most recent federal income tax return, together with credit reports and other relevant documentation.

Requirements Related to Arbitrage -- The Code imposes certain arbitrage requirements in connection with Program Loans financed with the proceeds of Bonds. Generally, the yield on Program Loans financed with lendable proceeds of an issue of Bonds may not exceed the yield on such Bonds by more than 1 1/8% and the amount of funds held in certain accounts for such Bonds invested at a yield greater than the yield on such Bonds may not exceed 150% of the current year's debt service on such Bonds.

The Code also requires THDA to periodically rebate to the United States Treasury certain investment earnings on non-mortgage investments to the extent such investment earnings exceed the amount that would have been earned on such investments if those investments were earning a return equal to the yield on the Bonds. THDA has established accounting procedures to determine the amount of such excess investment earnings.

Public Hearing and Approval Requirement -- The Code requires that qualified mortgage bonds be approved prior to issuance by the applicable elected official of the appropriate governmental unit, as specified by statute, after a public hearing held following reasonable public notice or by a voter referendum. THDA has adopted procedures to give public notice, to conduct public hearings, and to obtain approval from the Governor of the State to ensure compliance with the Code.

Reporting Requirement -- The Code requires the issuer of tax-exempt qualified mortgage bonds to submit to the IRS certain information with respect to the issuer and the particular issue, based on information and reasonable expectations determined as of the date of issue. In addition, each issuer must submit to the IRS a yearly report containing information with regard to the beneficiaries of the proceeds of Program Loans. THDA intends to file for each issue of tax-exempt mortgage bonds it issues, and for each year in which proceeds of any issue of tax-exempt qualified mortgage bonds are used to provide Program Loans, the information and reports required.

Certification Requirement -- The Code requires that the aggregate amount of all private activity bonds issued each year in Tennessee be within the volume limitation imposed on the principal amount of tax-exempt mortgage bonds which may be issued in Tennessee for that year. To meet this requirement, THDA requests a certification from an appropriate State official that an issue of tax-exempt qualified mortgage bonds is within the volume limitation and files such certification with the IRS or takes alternative action to satisfy this certification requirement.

Targeted Area Requirements -- THDA makes lendable proceeds of Bonds in amounts and for time periods as specified in the Code, available for financing qualified Program Loans for residences in Targeted Areas. Targeted Areas are those census tracts in the State in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or those areas of economic distress designated by the State and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code. THDA has designated certain areas of the State as being in economic distress and such designation has been approved by HUD and the Treasury.

Monitoring for Compliance with the Mortgage Eligibility and Arbitrage Requirements -- Under the procedures which THDA has established to comply with the Code, Originating Agents are responsible for reviewing each Program Loan application and the accompanying documentation, including the Application Affidavit and the Seller Affidavit, for compliance with the Code. Originating Agents are required to take normal and appropriate measures to verify the information given, either independently or concurrently with credit review, when applicable. Originating Agents must cross-check all documentation to ensure that the information presented is complete and consistent. Originating Agents give warranties as to each Program Loan delivered to THDA that, among other things, each Program Loan is in compliance with the Code.

Prior to issuing a commitment to finance a Program Loan and again prior to financing a Program Loan, THDA reviews the Program Loan application submitted by the Originating Agent, which includes the borrower's application, the Application Affidavit, the Seller Affidavit, and the borrower's federal income tax returns, for compliance with the

Code. To the extent that these provisions are not complied with, the Originating Agent is contacted to provide additional explanation or documentation to enable THDA to make a determination regarding the status of the Program Loan application. If the Originating Agent does not comply with requests from THDA to correct or complete documentation for any Program Loan or if the Originating Agent fails to comply with the Guide for Originating Agents (which failure is determined in the sole discretion of THDA without regard as to whether the Originating Agent may be at fault), or if the Originating Agent violates any other agreement with THDA, the Originating Agent is required to repurchase the Program Loan.

Loan Servicing

THDA is self-servicing its entire mortgage loan portfolio through Volunteer Mortgage Loan Servicing ("VMLS"), a division of THDA. VMLS began servicing operations as of November 1, 2016, with the servicing of a small THDA mortgage loan portfolio previously serviced by Pinnacle Bank. Since June 1, 2018, all THDA Originating Agents have been transferring all servicing for new THDA Program Loans directly to VMLS. The remaining servicing portfolio, previously serviced by U.S. Bank, was transferred to THDA on August 1, 2018; in conjunction with such transfer THDA paid \$23,376,000 to U.S. Bank with funds withdrawn from the lien of the 1985 General Resolution in accordance with its terms as a one-time servicing release and transfer fee.

December 11, 2019

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd Floor
502 Deaderick Street
Nashville, TN 37243-0200

Tennessee Housing Development Agency
Residential Finance Program Bonds
\$200,000,000 Issue 2019-4 (Non-AMT)

Ladies and Gentlemen:

We have examined a record of proceedings related to the issuance and sale of \$200,000,000 in aggregate principal amount of Residential Finance Program Bonds, Issue 2019-4 (Non-AMT) (the "Issue 2019-4 Bonds") of the Tennessee Housing Development Agency ("THDA"), a body politic and corporate, constituting a political subdivision and instrumentality of the State of Tennessee (the "State"), organized and existing under the Tennessee Housing Development Agency Act, constituting Chapter 23 of Title 13 of the Tennessee Code Annotated, as amended (the "Act"), and other laws of the State. Capitalized terms used herein and not defined shall have the meanings set forth in the General Resolution (as hereinafter defined).

The Issue 2019-4 Bonds were authorized to be issued pursuant to the Act, the General Residential Finance Program Bond Resolution of THDA, adopted January 29, 2013, as amended and supplemented (the "General Resolution") and by a Resolution adopted by THDA on September 30, 2019, as amended and supplemented by a resolution of the Bond Finance Committee of THDA adopted on November 6, 2019 (together, the "Supplemental Resolution," and, together with the General Resolution, the "Resolution").

THDA is authorized to issue additional series of bonds upon the terms and conditions set forth in the General Resolution and such bonds are and, when issued, shall, with the Issue 2019-4 Bonds (collectively, the "Residential Finance Program Bonds") be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Issue 2019-4 Bonds mature in the years and in the respective principal amounts, bear interest at the respective rates and are otherwise as described in the Supplemental Resolution. The Issue 2019-4 Bonds are being issued to refund certain outstanding obligations of THDA and to make funds available to make or purchase Program Loans, as defined in the General Resolution, in accordance with the program of THDA permitted under the Resolution (the "Program").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Issue 2019-4 Bonds in order that interest on the Issue 2019-4 Bonds be excluded from gross income for purposes of federal income taxation. We have examined the Resolution and other relevant single family housing program documents which set forth such various federal tax law requirements which must be met by THDA. THDA has covenanted in the Resolution to comply with such requirements of federal tax law and for such purpose, to adopt and maintain appropriate procedures.

Based upon the foregoing we are of the opinion that:

1. Under the Constitution and laws of the State, THDA has lawful power and authority, among other things, to carry out the Program, to provide funds therefor by the adoption of the Resolution and the issuance and sale of the Issue 2019-4 Bonds and to perform its obligations under the terms and conditions of the Resolution, including the financing of single family mortgage loans and collecting and enforcing the collection of revenues and prepayments as covenanted in the Resolution.

2. The Resolution has been duly adopted by THDA and is valid and binding upon THDA.

3. The Issue 2019-4 Bonds are valid and legally binding special, limited obligations of THDA and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

4. The Resolution creates, for the benefit of the holders of the Residential Finance Program Bonds, including the Issue 2019-4 Bonds, the valid pledge of and lien on revenues, as defined in the Resolution, and moneys and securities held or set aside or to be held or set aside in the Funds and Accounts established thereunder, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

5. Pursuant to the Resolution, THDA has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to make or purchase mortgage loans under the Program with the proceeds of the Issue 2019-4 Bonds, to do all acts and things necessary to receive and collect revenues and, when applicable, prepayments.

6. The Issue 2019-4 Bonds do not constitute a debt or liability or obligation of the State or a pledge of its full faith and credit or of its taxing power and are payable solely from the funds provided therefor pursuant to the Resolution and the Act.

7. Under existing federal laws as presently enacted and construed and assuming continuing compliance by THDA with the covenants concerning federal tax described above, (i) interest on the Issue 2019-4 Bonds is excluded from gross income of the owners thereof for federal income tax purposes and (ii) interest on the Issue 2019-4 Bonds will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals under the alternative minimum tax provisions of the Code.

8. Under the laws of the State as enacted and construed on the date hereof, the interest on the Issue 2019-4 Bonds is exempt from the income tax imposed by the State on interest income; however, the Issue 2019-4 Bonds and the interest received thereon are included in the measure of privilege taxes imposed by the State.

In addition to the opinions set forth in paragraph (7) above, certain individual owners of the Issue 2019-4 Bonds may have to take interest on such Issue 2019-4 Bonds into account for the purpose of calculating the amount of social security or railroad retirement benefits includible in gross income of such owners for federal income tax purposes. All owners of the Issue 2019-4 Bonds (including, but not limited to, insurance companies, financial institutions, S corporations and United States branches of foreign corporations) should consult their tax advisors concerning the effects of these and other applicable provisions of the Code on their individual tax liabilities. The extent of certain indirect tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the Resolution and the Issue 2019-4 Bonds may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We express no opinion herein as to the adequacy or accuracy of the Official Statement pertaining to the issuance of the Issue 2019-4 Bonds.

Very truly yours,

HISTORIC DELINQUENCIES AND FORECLOSURES

Delinquency and foreclosure data includes Program Loans transferred to the General Resolution in connection with prior Bond issuances and Program Loans financed with the proceeds of prior Bond issuances under the General Resolution. The delinquency and foreclosure data also includes data regarding loans financed pursuant to the 1974 General Resolution that were transferred to the General Resolution as of June 30, 2014.

Delinquencies and Foreclosures as of June 30, 2019

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.95%, based on a total of 19,521 Program Loans as of June 30, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of June 30, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2019, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF JUNE 30, 2019

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	328	\$ 31,934,437	1.97%	0.86% ⁽⁴⁾
VA Guaranteed	4	377,923	0.98	0.77
Privately Insured	16	1,075,984	2.54	0.63
USDA/RD Guaranteed.....	23	1,730,262	2.18	(5)
Uninsured.....	9	606,514	1.19	(5)
TOTAL.....	<u>380</u>	<u>\$ 35,725,119⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2019.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.10%, based on a total of 19,521 Program Loans as of June 30, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of June 30, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending June 30, 2019, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF JUNE 30, 2019

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	712	\$ 71,411,894	4.27%	1.43% ⁽⁴⁾
VA Guaranteed	11	1,083,344	2.68	1.11
Privately Insured	32	2,631,783	5.08	0.87
USDA/RD Guaranteed.....	31	2,187,689	2.93	(5)
Uninsured.....	15	916,774	1.98	(5)
TOTAL.....	<u>801</u>	<u>\$ 78,231,483⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2019.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.27%, based on a total of 19,521 Program Loans as of June 30, 2019 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of June 30, 2019 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending June 30, 2019, are as follows:

IN FORECLOSURE AS OF JUNE 30, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	42	\$ 4,497,248	0.25%	0.40% ⁽⁴⁾
VA Guaranteed	1	26,788	0.24	0.61
Privately Insured	3	333,886	0.48	0.35
USDA/RD Guaranteed.....	5	341,706	0.47	(5)
Uninsured.....	1	74,107	0.13	(5)
TOTAL.....	52	\$ 5,273,734 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending June 30, 2019.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

Delinquencies and Foreclosures as of March 31, 2019

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 1.81%, based on a total of 18,476 Program Loans as of March 31, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of March 31, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2019, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	287	\$ 28,828,398	1.83%	1.01% ⁽⁴⁾
VA Guaranteed	2	155,642	0.52	0.69
Privately Insured	26	2,034,490	3.96	0.63
USDA/RD Guaranteed.....	16	990,600	1.60	(5)
Uninsured.....	4	320,540	0.55	(5)
TOTAL.....	335	\$ 32,329,669 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans

(5) Prime fixed rate mortgage loans.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.09%, based on a total of 18,476 Program Loans as of March 31, 2019 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of March 31, 2019 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending March 31, 2019, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	670	\$ 66,301,938	4.27%	1.40% ⁽⁴⁾
VA Guaranteed	10	956,378	2.61	1.11
Privately Insured	27	2,268,310	4.12	0.88
USDA/RD Guaranteed.....	30	2,091,767	2.99	⁽⁵⁾
Uninsured.....	19	1,229,185	2.59	⁽⁵⁾
TOTAL	<u>756</u>	<u>\$ 72,847,577 ⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

The overall rate of Program Loans in foreclosure was 0.20%, based on a total of 18,476 Program Loans as of March 31, 2019 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of March 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending March 31, 2019, are as follows:

IN FORECLOSURE AS OF MARCH 31, 2019

Type of Mortgage	Program Loans			MBA⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	29	\$ 2,483,381	0.18%	0.44% ⁽⁴⁾
VA Guaranteed	1	26,788	0.26	0.70
Privately Insured	3	363,121	0.46	0.34
USDA/RD Guaranteed.....	3	169,886	0.30	⁽⁵⁾
Uninsured.....	<u>1</u>	<u>74,107</u>	0.14	⁽⁵⁾
TOTAL	<u>37</u>	<u>\$ 3,117,283 ⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending March 31, 2019.

(4) FHA fixed rate mortgage loans.

(5) Prime fixed rate mortgage loans.

Delinquencies and Foreclosures as of December 31, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 2.81%, based on a total of 17,764 Program Loans as of December 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of December 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF DECEMBER 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	444	\$ 46,663,618	2.96 %	0.96 % ⁽⁴⁾
VA Guaranteed	3	252,595	0.83	0.79
Privately Insured	19	1,554,721	2.81	0.65
USDA/RD Guaranteed.....	26	1,762,360	2.60	(5)
Uninsured.....	8	512,953	1.11	(5)
TOTAL.....	<u>500</u>	<u>\$ 50,746,246⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.55%, based on a total of 17,764 Program Loans as of December 31, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of December 31, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending December 31, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF DECEMBER 31, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	692	\$ 66,450,810	4.61 %	1.59 % ⁽⁴⁾
VA Guaranteed	13	982,060	3.59	1.22
Privately Insured	36	2,839,047	5.32	0.92
USDA/RD Guaranteed.....	40	2,611,826	4.00	(5)
Uninsured.....	27	1,478,036	3.76	(5)
TOTAL.....	<u>808</u>	<u>\$ 74,361,778⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending December 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.29%, based on a total of 17,764 Program Loans as of December 31, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans in foreclosure as of December 31, 2018 (unaudited), compared to the percent of principal amount of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending December 31, 2018, are as follows:

IN FORECLOSURE AS OF DECEMBER 31, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	41	\$ 3,903,225	0.27 %	0.56 % ⁽⁴⁾
VA Guaranteed	1	26,788	0.28	0.69
Privately Insured	4	385,659	0.59	0.36
USDA/RD Guaranteed.....	4	252,649	0.40	(5)
Uninsured.....	1	74,107	0.14	(5)
TOTAL.....	51	\$ 4,642,429 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended December 31, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these

Delinquencies and Foreclosures as of September 30, 2018

The overall delinquency rate for Program Loans that were sixty (60) to eighty-nine (89) days past due was 3.04%, based on a total of 16,597 Program Loans as of September 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were sixty (60) to eighty-nine (89) days past due as of September 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2018, are shown in the following table:

60 TO 89 DAYS PAST DUE AS OF SEPTEMBER 30, 2018

Type of Mortgage	Program Loans			MBA ⁽³⁾
	Number	Outstanding Balance ⁽¹⁾	% of Total Number by Type of Program Loan	% of Total Number by Loan Type
FHA Insured	426	\$ 41,442,638	3.05 %	1.15 % ⁽⁴⁾
VA Guaranteed	7	670,961	2.11	0.87
Privately Insured	30	2,407,682	3.68	0.68
USDA/RD Guaranteed.....	36	2,582,641	3.83	(5)
Uninsured.....	5	308,508	0.93	(5)
TOTAL.....	504	\$ 47,412,430 ⁽²⁾		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2018.

(4) FHA fixed rate mortgage loans

(5) MBA does not report data in these categories.

The overall delinquency rate for Program Loans that were ninety (90) days past due was 4.34%, based on a total of 16,597 Program Loans as of September 30, 2018 (unaudited).

Delinquency rates by loan type for Program Loans that were ninety (90) days past due as of September 30, 2018 (unaudited), compared with the delinquency rates reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for fixed rate mortgages for the quarter ending September 30, 2018, are shown in the following table:

90 DAYS OR MORE PAST DUE AS OF SEPTEMBER 30, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	618	\$ 59,661,632	4.42%	1.55% ⁽⁴⁾
VA Guaranteed	11	714,521	3.31	1.19
Privately Insured	48	3,461,082	5.89	0.94
USDA/RD Guaranteed.....	31	2,170,545	3.30	(5)
Uninsured.....	12	859,273	2.24	(5)
TOTAL.....	<u>720</u>	<u>\$ 66,867,054⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ending September 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these categories.

The overall rate of Program Loans in foreclosure was 0.26%, based on a total of 16,597 Program Loans as of September 30, 2018 (unaudited).

The foreclosure rate by loan type for Program Loans, in foreclosure as of September 30, 2018 (unaudited), compared to the percent of loans in foreclosure reported for Tennessee by MBA in its National Delinquency Survey, by loan type, for the quarter ending September 30, 2018, are as follows:

IN FORECLOSURE AS OF SEPTEMBER 30, 2018

<u>Type of Mortgage</u>	<u>Program Loans</u>			<u>MBA⁽³⁾</u>
	<u>Number</u>	<u>Outstanding Balance</u> ⁽¹⁾	<u>% of Total Number by Type of Program Loan</u>	<u>% of Total Number by Loan Type</u>
FHA Insured	33	\$ 3,103,475	0.24%	0.53% ⁽⁴⁾
VA Guaranteed	2	132,797	0.60	0.70
Privately Insured	2	93,072	0.25	0.34
USDA/RD Guaranteed.....	4	252,649	0.43	(5)
Uninsured.....	2	195,224	0.37	(5)
TOTAL.....	<u>43</u>	<u>\$ 3,777,217⁽²⁾</u>		

(1) Rounded figures.

(2) Rounded total.

(3) MBA data for Tennessee for the quarter ended September 30, 2018.

(4) FHA fixed rate mortgage loans.

(5) MBA does not report data in these



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